A PRACTICAL GUIDE TO STRATEGY

Making strategic thinking, development and implementation accessible

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To my wife, Marieta, who stands by me – JH

To Jan, for all the opportunities, and JP, for endless support – IH

"Anyone who knows me is aware of my intolerance of mistakes … When I come across an inaccuracy in a book written by somebody else, I become discouraged, wondering whether I can really learn something from an author who has already been proved wrong on at least one point. When the errors concern me or my work, I become furious. The reader of this volume can therefore readily imagine the agonies of embarrassment I am already enduring just through imagining dozens of serious mistakes being found by my friends and colleagues after publication and pointed out, whether gleefully or sorrowfully, to the perfectionist author. In addition, I keep thinking of the legendary figure described to me … a Norwegian lighthouse keeper who has nothing to do on long nights throughout the winter but read our books, searching for mistakes."

(Gell-Mann, 1994, p. xv)

ACKNOWLEDGEMENTS

INTRODUCTORY COMMENTS

This is not a "strategy textbook" to replace others. Such a book will strive to be definitive, become drearily repetitive and highly theoretical.

Definitive, because the presupposition would be that it is not necessary to read other books. On the contrary, the aspirant strategist is beseeched to read as widely as possible, but also to go beyond reading and to **practice strategy**. Our book is aimed at supporting **practice**.

Repetitive, because in order to cover the whole field in a textbook fashion, everything, or nearly everything that has already been said, will have to be said again. If ever we have a slight criticism of the field, it is the unending repetition from textbook to textbook to textbook. Our book is aimed at supporting other texts and gives those helpful process tips that might not be so readily available in other books.

Highly theoretical, because it seems to us as if many practitioners want to turn the discipline of strategy into a science. This involved and unnecessary complication helps business schools and consultants, but is of little value to a manager trying to get through his or her daily business life. And, of course, this approach is of no value for people in other walks of life. We need strategies to look after our health, care for the environment, mount expeditions, go to Mars, keep our families together, look after our communities, ensure our safety, etc., The business school/theoretical approach could impoverish our lives by removing the **strategy** approach from all **other** walks of life and developing it as a discipline primarily in the military and business. At the same time an uncanny observation emerged out of the process directly into our path: making the strategic approach more **general** greatly demystified the practice, also for business.

We have applied our approach in many walks of life. Over the last few years we facilitated many businesses in diverse industries, such as mining, financial services, manufacturing, energy and transport utilities, etc. through this process, with delightful results. What delighted us even more was when we started to apply the principles at municipalities, chess clubs and in personal development situations, and realised how well it works.

We learnt that strategising is a universal discipline and nothing more than an affirmation of our enduring ability to think. At the same time it challenges us to become more proactive in our thinking and to take charge of our existence, in our personal lives and in everything we do.

But we also learnt that thinking individually is quite different from the challenge of participative thinking. In the age of transformation to a higher order of unified diversity, we have, as a human race, largely failed to uncover inclusive processes in strategy formulation.

Through our book we would like to provide a practical guide on how to increase our ability to think strategically and some tools for doing this in a group environment.

The authors

Cape Town, 2004

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1. MYTHS AND REALITY

Strategy is, for many people, a weighty subject. The subtle meaning seems frightening to some and seems to convey a sense of near mystical and charismatic power to others. It also seems like a state of mind or ability that a lot of people aspire to and many people believe is beyond them. The question is whether these perceptions are valid.

The practical concept of strategy is actually quite the opposite. It is not a science nor a profession. It has been around in its military form for ages, but in all other aspects it is quite new (less than 50 years) as a discipline, or field of study. Nor is what strategy aims to achieve complex. Hitt *et al*. define strategy as:

> an integrated and co-ordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (Hitt *et al*., 2003, p. 9)

It is not always beneficial to try and find a "perfect" definition, nor does it make much sense to try and force learners to blindly memorise such definitions. But what does this definition (which, by the way, seems reasonably accurate) really say? It merely challenges the strategist to consider key variables, map out a set of activities based on these considerations and follow this map, **in any possible enterprise.** One could extend this practical summary to say:

When trying to achieve any goal in any human endeavour, consult widely and let all affected parties consider their strengths and advantages, all the weaknesses and disadvantages, map out a course of activities to achieve the goal and implement these activities.

2. INHERENT OBSTACLES

This simple definition within itself points to the following inherent obstacles facing the strategist:

- Heuristics;
- Individuality;
- Exclusivity; and
- Lack of pervasive strategic thinking.

2.1 Heuristics

De Bono said:

> ... the main purpose of thinking is to abolish thinking. The mind works to make sense out of confusion and uncertainty. The mind works to recognize in the outside world familiar patterns. As soon as such a pattern is recognized the mind switches into it and follows it along – further thinking is unnecessary. (De Bono, 1983, p. 39)

The brain as an organ gave human beings the evolutionary advantage over other mammals. It is also the most demanding organ in the human body. It consumes 20% of all energy that the body receives, and is also first in line when energy is sparse (which means other organs always collapse first when you are starving!). As such our bodies created a natural system to "conserve" brain energy that actually drives us not to think. In fact, if you had to rethink every move and decision of every day, then modern life would be impossible. The person that overcomes the natural tendency to **not** think, irrespective of ability, will already have a jump on competitors. Anecdotal evidence suggests that 70% of important business decisions in the world are made based on heuristic reaction rather than thought. The first inherent obstacle in our definition is therefore acting rather than **consideration** (see box on heuristics).

Heuristics

"A heuristic is a rule of thumb that is used to simplify complex decision-making situations" (Robbins, 1983, p. 401). Steers also calls heuristics "obvious solutions or previous solutions that worked in similar situations" (Steers, 1984, p. 281). One should be aware of heuristics as they inhibit thinking and should be overcome by the strategist.

Certain thought constructs will help the reader to identify heuristics and develop thinking alternatives:

No previous thoughts are perfect. One should use and integrate what others think, but most scientific thought is subject to correction and even the most perfect scientific theories are revised over time. Many approaches in management theory are far less robust than we think and a remarkable quantity of data, interpretations and conclusions that managers are presented with in the daily course of business is incorrect. One can challenge "optimal thought" and should do this often.

Very little can be determined with certainty. At some stage incomplete data will have to be accepted and integrated. Waiting for absolute answers will invariably cause the decision-maker to wait indefinitely and finally make a thoughtless decision, if a decision is made at all.

Don't accept the first satisfactory alternative. Don't think "up to" a solution, but rather think to generate multiple solutions. March and Simon maintain that "most human decision-making, whether individual or organisational, is concerned with the discovery and selection of satisfactory alternatives; only in exceptional cases is it concerned with the discovery and selection of optimal alternatives" (March and Simon, 1981, p.138).

We are born with a tendency to be biased. Bias (though strongly criticised when identified) is part of our everyday lives. It is caused by an unwillingness to accept that we don't know everything (therefore we will rather accept gross assumptions), a tendency to oversimplify the complex and an unwillingness to accept randomness (a condition better explained by chaos theory in Chapter 4).

All events regress to the mean. In a series of random events, an extraordinary event will most likely be followed by something ordinary. We will often praise an exceptional performance, just to be flabbergasted when it is followed by an ordinary performance. The principle of regression to the mean is often at work, rather than specific achievements being the result of some management intervention – which will cause us to over-correct behaviour.

It is hard to find representative sample data in complex systems. Representative data identification is a strategic conceptual task and the ability to find the correct predictors is not so easy. The classic example is of a group that was asked whether a quiet, organised, academically orientated person is a business man, sales representative or librarian. The group overwhelmingly opted for the librarian option (Martin, 1985, p. 6). Think of all the background data, both obvious and not so obvious, that is ignored. Is it possible that there are many more sales and business people than librarians? Even if only some librarians are outgoing and only some business and sales people are reserved (a fact that we also probably have little data on), we could still find that there are more reserved business and sales people than reserved librarians in the world.

We commonly revert to easily available examples. The strong drives of association and imagination "force" us to revert to "first" experiences. These drives are so strong that major psychological fields of study, such as those of Freud and Jung, are based on this.

We tend to develop confidence in our judgement in proportion to what we know, rather than to what we have reasoned. Information is not power, nor is knowledge, but rather synthesized knowledge:

> Regardless of whether the task seemed strange or the case material atypical, the judges' confidence ratings show that they became convinced of their own increasing understanding of the case. As they received more information, their confidence soared. Furthermore, their certainty about their own decisions become entirely out of proportion to the actual correctness of those decisions. (Kahneman, 1985, p. 292)

We need less information to predict a favourable event than an unfavourable one. But once we've made up our minds to be pessimistic, the reverse becomes true. Irrespective of anything, all human beings are at heart "conservative"; it is in our blood.

We hate gambles, but constantly gamble with risks. Most people will not gamble away (for instance) their monthly salaries at a casino, but will still expose themselves to tremendous health, insurance and other physical risks, without thinking about it.

> People need a strong inducement to put money into a gamble. But they expose themselves to tremendous risks in order to avoid a loss. (McKean, 1985, p. 28).

2.2 Individuality

Adair maintains that:

> ... given the realities of the situation, strategy in the military field is usually simple. It is also commonly the product of many minds. When generals in modern times – Montgomery is a good example – write their memoirs, especially if they tend to be egotistical, they exaggerate their own role in devising strategy and correspondingly denigrate the contribution from others, be it their superiors, colleagues or predecessors. (Adair, 2003, p. 36)

In fact Montgomery, at least for a large part of his early career, **listened** to advisers. The extent to which military strategists achieved the integration of many intelligent minds into a strategy often predicted success. Many military strategists (such as Napoleon, Montgomery, and Hitler[1]) had successful early careers, while they still listened to and integrated information from their advisers, and more disastrous later careers as they became more isolated and unwilling to do this. The same is true of business leaders.

2.3 Exclusivity

Strategy originated as a military concept and penetrated the world of business fifty years ago (as a relatively new field of study). In the course of this development it became synonymous with higher-order military or business thinking. This synonymity is incorrect. Strategy is merely a way of thinking with rich examples in many other fields. The case study of Scott and Amundsen (refer to the case study in Chapter 17) is a case in point. Strategy is enriched with examples from many other fields (such as physics, biology, archaeology, art, exploration, sport, etc.). The ability to integrate lessons from all these fields will enrich strategy and strategic thinking as a discipline in its own right.

2.4 Lack of pervasive strategic thinking

Saloner *et al*. make a strong case for strategic thinking as a different and more important concept than a mere strategic process (Saloner *et al*., 2001, p.10). It is a fact that many so called "strategists" in business and "strategy departments" at corporate centres have fallen into the trap of managing an annual strategic process, a ritual with little real meaning. Strategic thinking refers to the development of a conceptual model of the position that you are in. It differs from tactics which refer to the various functions and relationships that are components of the model and operations which are the transactions that occur within the model. If one can get one's head around these important distinctions, half the strategic battle is won (see box on the STO model). The inherent inhibitor is the psyche's natural tendency to move from concept to function to transaction – the natural tendency to do something. It is true that it is often better to do something rather than nothing, but it is also true that it is better to think before acting, in an efficient and goal-orientated fashion.

In summary, we want to:

- Overcome the obstacles of thinking instead of forming conclusions based on past perceptions;
- Keep this thinking on a conceptual level;
- Involve as many minds as possible in the thinking process; and
- Look for examples and reference points from a wide variety of disciplines.

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[1] Hitler especially suffered from this paradox. He made valuable contributions to military strategy in the earlier years of his reign, including mechanisation, *Blitzkrieg*, democratisation (which increased the competence of more junior officers right down the line) and promoting unity, ingenuity and daring in his top command (Earle, 1973, p. 505). In his later years all his military mistakes were exactly on these terrains. He took personal control of mechanised forces on the eve of D-day, which meant that the *Pantzers* were in the wrong place when the Allied forces landed, he ordered long sieges – in contrast with the *Blitzkrieg* doctrine, but above all, he stopped listening to men on the ground or his senior commanders.

The STO Model

The STO (Strategy, Tactics, Operations) model is a useful tool to help the practitioner with the development of strategic thought.

Strategy   **S**   Concept

Tactics   **T**   Function

Operations   **O**   Transaction

Figure 1: *STO model*

One always has the option to react thoughtlessly. That is a mere transaction. Working at a cash register at the local store is a transaction. The work gets done, but the work in itself will not increase sales, grow brands, defend profits, save costs, develop alliances, etc. It is a mere transaction. When the enemy attacks and I defend in the same way as I have always done it (think of trench warfare in World War I), it is also a mere transaction, or if I reduce prices when my competitors do, without thinking, this is also transactional behaviour. Functional behaviour (tactics) takes place when I understand the effect of the transaction within a certain context. In other words, the cash register operation is part of the commercial function of selling. It requires certain systems, procedures, etc. to keep the commercial function going. When I elevate the thought to a **conceptual map** with goals and objectives within a specific open system I achieve strategic thought - what is it that I want to achieve (brand, profits, growth, etc.), how do I position this achievement in a wider context (vis-à-vis suppliers, buyers, competitors, etc.) and how will I get there? Developing, maintaining and executing this conceptual map **is** strategy.

This thinking can even be applied to the strategic function itself (see Figure 2).

The so-called functionaries who arrange annual strategic conferences are often doing no more than transacting. Developing a set of financial statements and planning gearing ratios, etc. for the following year is a function, but understanding and developing the positioning of your business is strategy.

Figure 2: *The STO model of the strategic function*

The ability to overcome these natural inhibitors to clear thinking is the key to success. Tracy says that:

> ... the quality of your life is determined by the quality of your thinking. The better you think, the better results you get. (Tracy, 2002, p. 4)

These inhibitors can be further clarified on a simple map (Figure 3).

3.   THE DRIVERS OF SUCCESSFUL STRATEGY

The map depicted in Figure 3 also points us towards two of the most important drivers of successful strategic thinking, i.e. the level of participation and the depth of thought.

There are many strategic thought pieces (books and articles) which refer to **business drivers** and the importance of finding a set of drivers for a specific situation, but not so many looking for the **drivers of successful strategy.** These two - i.e. thought and participation - are a useful starting point and also a useful diagnostic. The diagnostic is based on a simple set of questions to position your situation on the map. If the result points to:

   a.   **"Lose touch with reality":** You feel marginalised, alone and as if your behaviour tends to be irrational. **Solution**: You desperately need to consult knowledgeable experts on your position and give a rational step back from it. Consider the situation from a distance, based on a valid conceptual model and developed with the help of experts you can trust (see box on the IME model for a simple but extremely useful approach.)

b. **"Silent schemer":** You feel as if you have given some position a lot of thought, but nobody seems to support your course of action. **Solution:** Become specific about the need to communicate and determine the intensity of the required communication (see box on the realities of proper decision-making communication).

c. **"Mass hysteria":** You feel as if you are swept up in a common belief, tradition or untested "group-think" scenario. **Solution:** Get the group to apply novel and creative group-thinking exercises.

d. **"The lasting plan":** If you've reached this position, you will not only have the best chance of developing a useful solution, but you will also achieve buy-in and commitment.
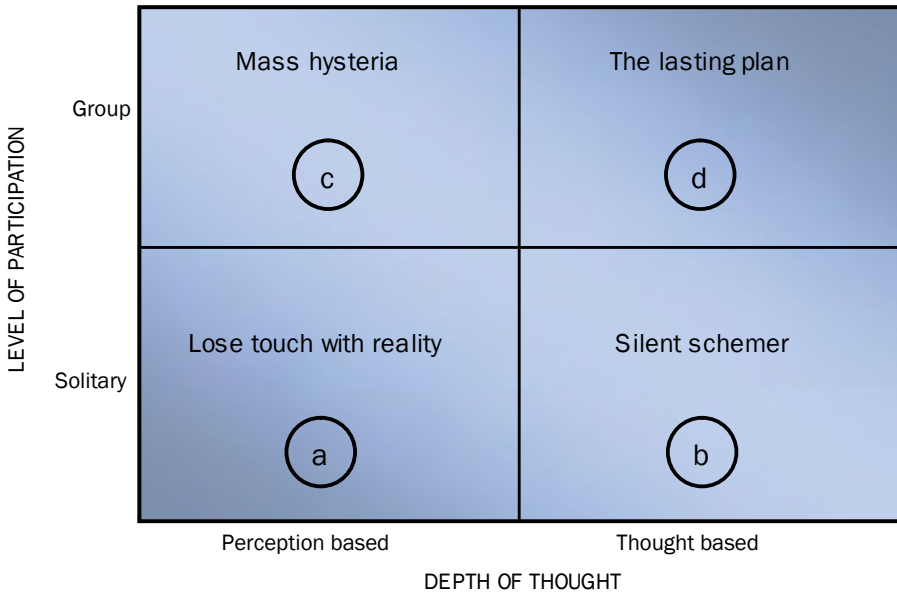

Figure 3: *A conceptual map for overcoming thinking inhibition*

The IME Model

The IME Model is a simple systemic tool that divides a system into three distinct parts (Figure 4).

This Model is applicable to everything. In a human body **internal** will refer to the limbs and organs of the body and how it is put together; nature, earth and atmosphere will be the **market** area where the body competes with other life for resources; and survival and law, love, art, etc. will be **external drivers** which control the body's activities and purposes. In a business human and other resources, finance, technology, etc. will be **internal** aspects; the place where the business competes with image, brand and products will be the **market** place; and the governance of the business (shareholders, etc.), laws under which it must operate and economies that determine issues such as exchange rates are **external** factors.

External	The area that <u>qualifies</u> and controls the system, its reason for existence (the rules of the game)
Market	The area where the system as a whole <u>competes</u> for positioning, survival, etc. (playing the game)
Internal	The aspects that are under the system's <u>control</u> (enabling the team)

Figure 4: *The IME model*

The realities of proper decision-making communication

Communication is always important - the level of information, consultation, negotiation and lobbying can have an important impact on strategy.
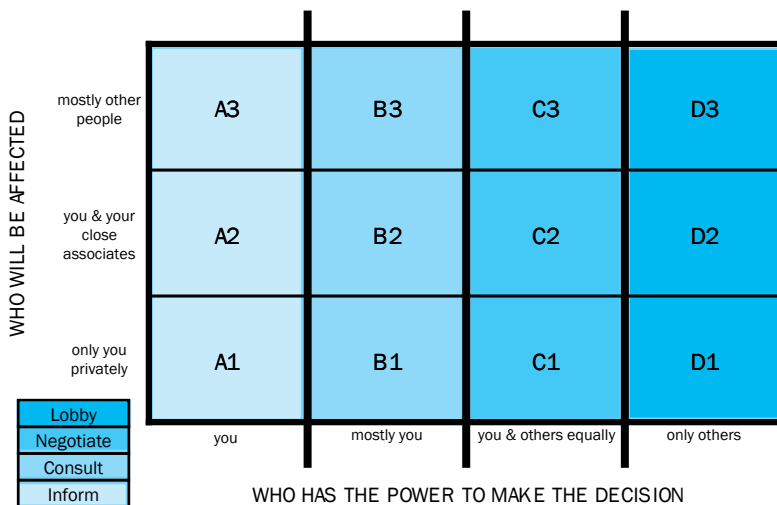

Figure 5: *The power/affected grid*

Look at the power/affected grid depicted in Figure 5 carefully. We tend to look at this complexity in one dimension, i.e. along the x-axis. We believe that if we have the power to make a decision we at most need to inform; when we have most of the power, we consult; when we have half the power, we negotiate; and if the power is somewhere else, we lobby. However, this is mostly effective if we ourselves are affected by the decision.

If other people are affected, however, and we follow the same pattern, we are nothing more than dictators and, even if we take benevolent decisions, paternalistic dictators.

If we follow the B-line vertically upwards (from B1 to B3), for example, it is true that right through you don't have to do much more than consult (it is, after all, mostly your decision), but you will be amazed at how much a little negotiation and more (even in your private life!) can achieve, if other people are affected.

This consultative approach to decision-making is depicted in Figure 6 below.
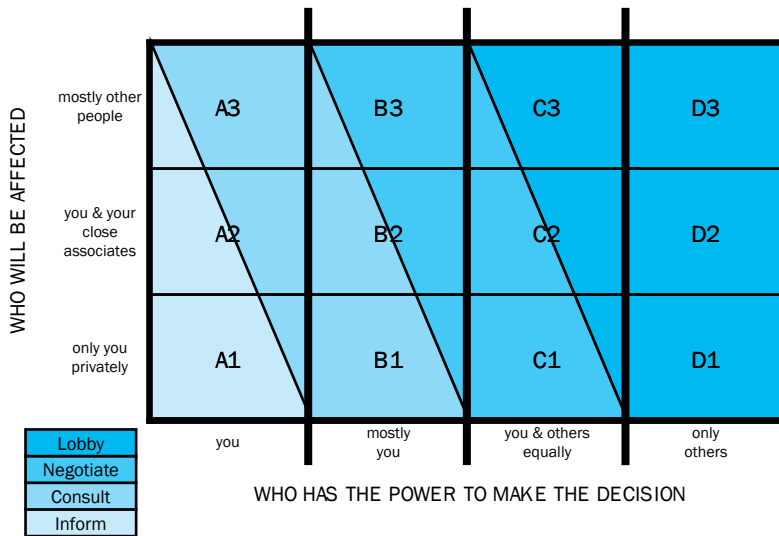
Figure 6: *The consultative approach to the power/affected grid*

Mintzberg (2000) attempts to play off the two aspects, which he calls "commitment" (in our model "participation") and "planning programming" (in our model "thinking") against each other. He iscusses this under the heading of decentralisation and comes to the conclusion that planning is a "centralising" process. We couldn't agree more. The upper pinnacle of our STO model couldn't and shouldn't be decentralised. The challenge is **not** met by decentralisation, but by **participation.** In fact Mintzberg goes as far as trying to choose between these two drivers:

> The honest response, then, when different activities must be tightly and formally coordinated, would seem to forget about participation and commitment and simply impose central planning. As Bass puts it, 'if the actions of doers are fully programmed by the planners, the gain in predictability of performance may be offset by the loss in doer interest.' (Mintzberg, 2000, p. 166)

But Mintzberg immediately provides perspective in the next sentence by stating:

> And when commitment is crucial, the appropriate response may be to forget about planning, at least as conventionally practiced. (*ibid*.)

The undisputed holy grail of strategic planning is to achieve both, i.e. full commitment through the line (as wide as possible) and full programmed thinking ability.

4. SUMMARY

A summary of the most important thoughts for this chapter is depicted in Figure 7.
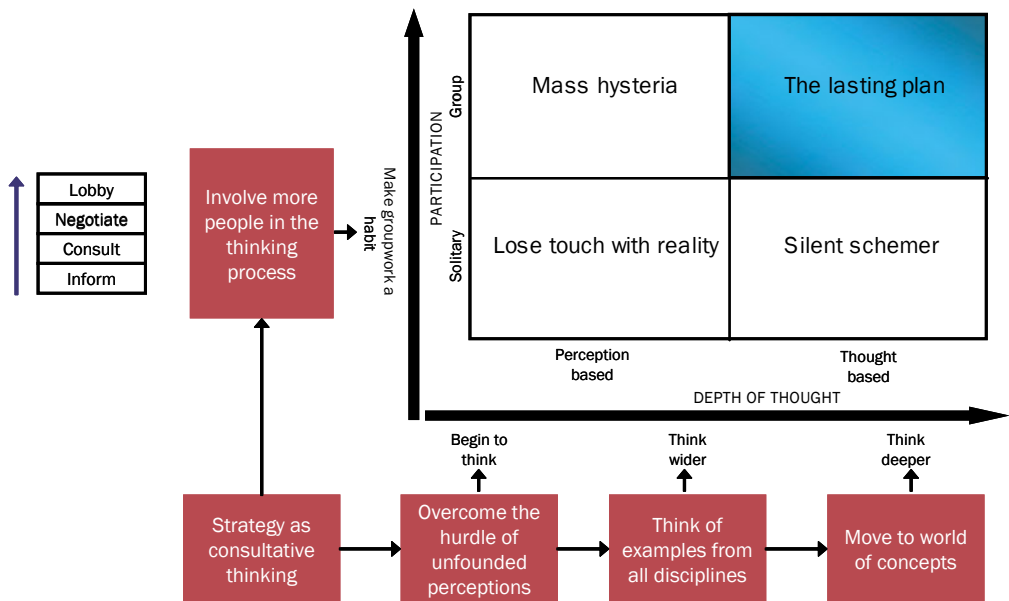
Figure 7: *A summary model for effective thinking*

If we think of strategy as "consultative thinking", we need to encourage two processes, i.e. the thinking process and the consultation process. We achieve this by:

- Understanding unfounded perceptions (and assumptions) and overcoming them
- Finding broad examples, developing conceptual models (to improve thinking – such as STO and IME) and by involving people; and
- Including consultation when we are only required to inform, and including negotiation when we are only required to consult.

This will assist us to develop lasting plans, i.e. strategic plans that can survive most battle scenarios and which will be followed in the heat of battle by most "warriors".

The next logical question is about the **reason** for the battle. If we want to increase our depth of thought and encourage people to participate in this process, it needs to be made clear why we engage in the enterprise in the first place. Therefore all discussion about strategy must always begin with **objectives**. We will address the pervasiveness of clear objectives vs. total lack of direction in the next chapter.

Final take-out

MYTHS AND REALITY – Strategy is easy to do, but difficult to start.

INHERENT OBSTACLES – We think better than any other sentient being we know of, but it requires inordinate energy and we therefore do not like to think.

THE DRIVERS OF SUCCESSFUL STRATEGY – Strategy is about deeper thought **and** wider participation. Both. Equally.

SUMMARY – Strategy begins with consultative thinking. In any situation.

CHAPTER 2

STRATEGY BASED ON OBJECTIVES

Why we need it - the lasting plan

Critical issues for this chapter

GOAL-ORIENTATED BEHAVIOR – Does goal-setting come naturally?

THE NATURE OF GOALS AND OBJECTIVES – Are all goals the same?

A SIMPLE HIERARCHY OF OBJECTIVES – What is the hierarchical relationship between goals?

THE BALANCED SCORECARD AND OBJECTIVES – How do objectives, strategy and people hang together?

SUMMARY – How do we pull these thoughts together?

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1. GOAL-ORIENTATED BEHAVIOUR

In our previous chapter we clearly identified the "what" of strategy. It is a consultative thinking process to help us achieve a certain goal. The question of "why" still needs to be answered. Is it worth it? And, if so, how much effort should I put in? Towards the end of the previous chapter we reverted to the military image of strategy being an aid for warriors (the "what"), in which case the "why" is quite simple, i.e. victory. Warriors have a strategy because they would dearly like to achieve victory, i.e., there is a specific attainable goal to achieve. This means that a **specific objective** always precedes strategy.

This observation is not as obvious as it seems. It is amazing how much is **done** in the world, in many spheres of life, without a specific goal in mind. In fact, most people go through life without clear objectives for their existence, without a real understanding of what it is that they want to achieve. In battle (where strategy as a concept first emerged) the objective apparently seems clear – victory, and sometimes in business (profits, growth), but upon closer scrutiny it becomes clear that this is not always the case. The overriding objective of the main protagonists of the great wars is still unclear and many businesses still don't understand their positioning ideals for the future. Did Scott go to the South Pole for scientific discovery, to prove that he is a man, or to be the first there? Scott was unclear about this, as opposed to Amundsen, whose strategy was driven by a single objective – to be first. Von Clausewitz (1968, p. 367) says "pursue one great decisive aim with force and determination", and:

> The Plan of the War comprehends the whole Military Act; through it that Act becomes a whole, which must have one final determinate object, in which all particular objects must become absorbed. (*ibid*.)

The first lesson for the strategist is therefore goal-orientated behaviour. As illustrated in Figure 8, if objectives lead to strategies which should determine actions, then goal-orientated behaviour requires goal-orientated decisions, which in turn require clear goals and objectives.
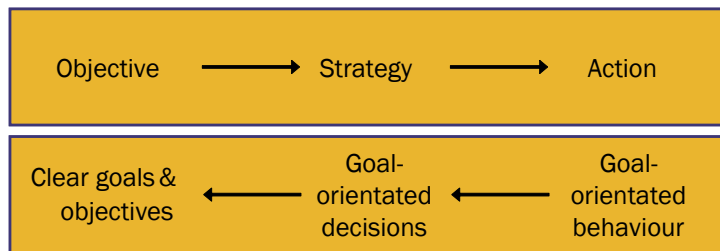
Figure 8: *Clear goals*

Campbell *et al*. summarise this as:

> strategic decisions are concerned with the acquisition of sustainable competitive advantage, which involves the setting of long-term corporate objectives and the formulation, evaluation, selection and monitoring of strategies designed to achieve those objectives. (Campbell *et al.,* 2002, p. 20)

2. THE NATURE OF GOALS AND OBJECTIVES

Adair (2003, p. 161) describes sound goals as "clear, realistic and challenging".

Analoui and Karami (2003, p. 125) take this description further and talk about SMART goals, i.e. they are **S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime bound, a very useful description (see point 3.1 in this chapter). Two other areas to take into account are:

- There seems to be a **hierarchy** of goals, which presupposes the management of a clear link and distinction between goals. The way in which the links are managed and the names given to the levels of the hierarchy are less important than the absolute chaos that ensues when they are not managed properly. Mintzberg maintains:

  > The assumption of strategic planning seems to be that objectives are decided upon by the top management for the entire organization, which in turn evokes the process of formulating strategy, and, themselves, cascade down the structural hierarchy, as devices of motivation and control – that is, to provide incentives as well as means against which to asses performance. But if the objectives truly exist to motivate, then according to behavioural scientists, people have to be involved in the setting of their own ones. So instead of cascading down, objectives have to be made in different places and then aggregated up. But if so, how can they relate to strategies? With one aggregating up and the other cascading down, how do they get together? To quote Eigerman, 'In a purely bottom-up system, the integration of strategy across units is achieved with a stapler!'. (Mintzberg, 2000, p. 71)

  This indeed seems confusing, but in many respects unnecessarily so. We will propose a simple hierarchy later in this chapter (see point 3). In the meantime it should be

remembered that strategic objectives and strategy formulation are definitely not the "exclusive domain" of top management (see box on the grassroots and hothouse models of strategy formulation).

- Goals are meaningless if the buy-in of "warriors" who need to execute them are not obtained. Everyone involved in the execution must **accept** them.

The grassroots and hothouse models of strategy formulation

Mintzberg, Ahlstrand and Lampel (1998, pp. 196-198) describe two extremes of strategy formulation and emphasise that real strategic behaviour should be informed by both approaches.

The **grassroots model** of strategy formulation is a bottom-up approach that allows strategies to be grown initially like weeds in a garden. The process is not over-managed and patterns are allowed to emerge from any source in the organisation. Should any pattern be powerful enough to permeate the organisation, formally or informally, and be recognised as valuable, this should become an organisational strategy and be managed more formally. The role of management in this scenario is to create a climate for strategic creativity, to recognise the emergence of valuable strategies and intervene when appropriate.

The **hothouse model** of strategy formulation is a top-down approach, where the CEO is the only strategist. Strategies are cultivated consciously and come out of this process fully developed, to be made formally explicit and implemented. The role of management is to provide appropriate data and to provide strategic input into the CEO's strategic thought process, and manage communication and implementation of the strategies.

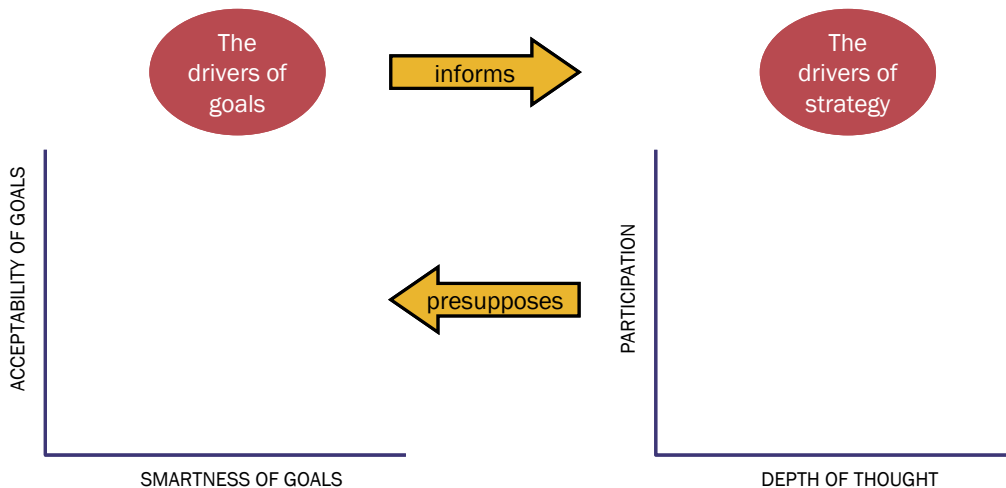It is now possible to depict the drivers of sound objectives in a simple model (Figure 9).

Figure 9: *The basic drivers of goals*

The first important observation is the **direct correlation** between the drivers of strategy and the drivers of goals. If strategy presupposes some objective, and if strategy is defined by the depth of thought and breadth of participation, then goals are defined by the "SMART"-ness of the goal and its level of acceptance. This enables us to determine the efficiency of goal-setting as depicted in Figure 10.
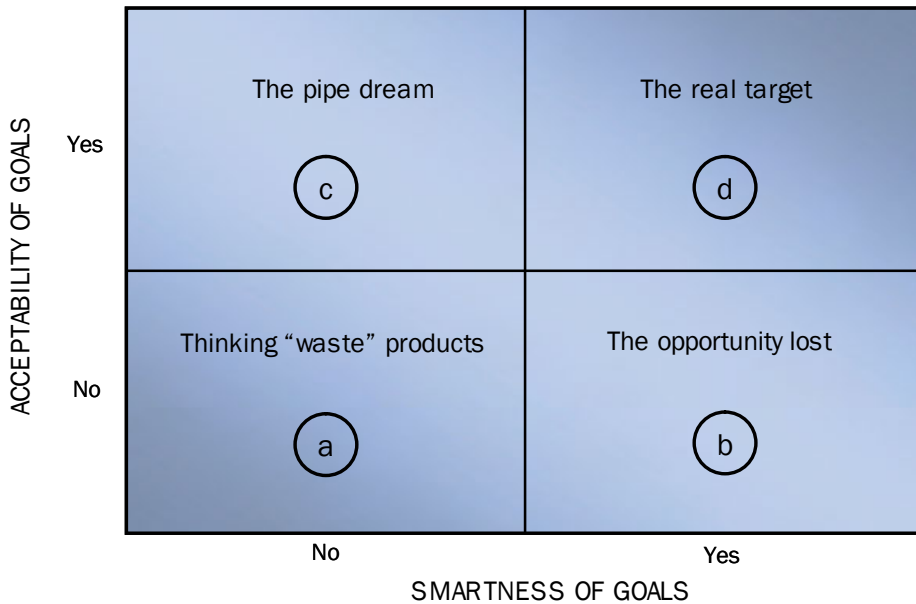
Figure 10: *The efficiency of goal-setting*

Thinking "waste products" are those "funny" entries on brainstorming lists. (A mining client identified a market for two million tons of their commodity in Cape Town – 2000 km from our client's mine. One of the "funnies" on the marketing brainstorm list was "fly the commodity to Cape Town". Not a SMART goal – and nobody wants to do it – a thinking "waste product"). But sometimes goals are smart. You will find yourself saying this is so specific, achievable and realistic that "I can almost taste it", but still nobody wants to do it. This is truly a lost opportunity. On the other hand, we sometimes find ourselves in a situation where we are all chasing a dream that, in all honesty, simply cannot be achieved. Once again a simple diagnostic can be applied to determine position *a*, *b*, *c* or *d* which leads to simple corrective action:

   a. **Thinking waste products:** Don't waste too much time on thinking "waste products". If the idea cannot trigger a better one – let it go.

   b. **The opportunity lost:** Work out a specific communication plan to gather support. Who can make the difference and what argument will convince that person?

   c. **The pipe dream:** Firm up on the objective. There is something behind it that people really want. Use that energy and translate the need into something that can actually be achieved.

   d. **The real target:** Develop the implementation details of the plan.

3. A SIMPLE HIERARCHY OF OBJECTIVES

The further aspect of objectives is the issue of hierarchies. The first important point is to **not** split hairs on the meaning of the words "objective", "goal", etc. It is more important to clearly understand the **hierarchical** nature of objectives. This is summarised in Figure 11.
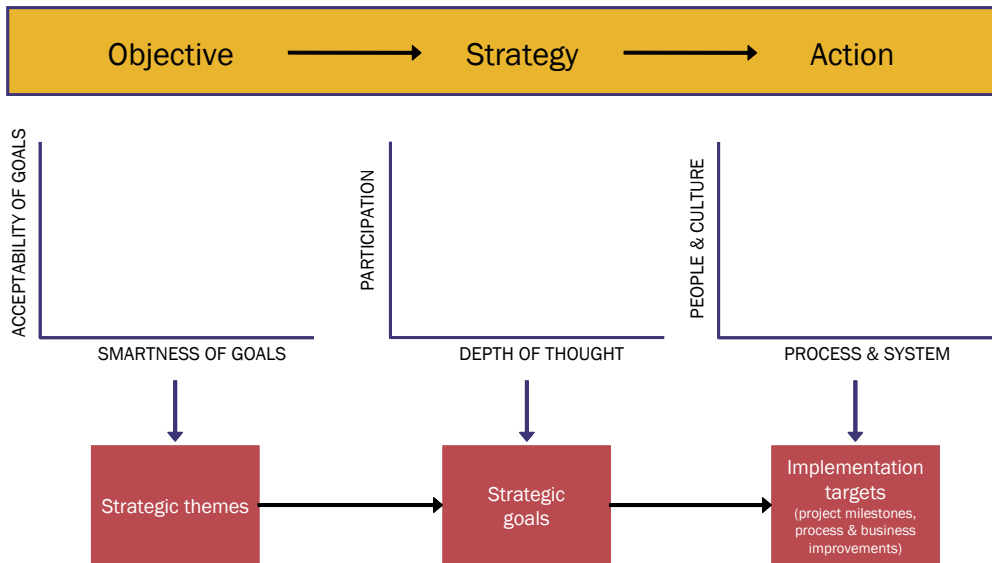
Figure 11: *A hierarchy of objectives*

In the most simple system we classify objectives into three groups, i.e. strategic themes, strategic goals and implementation targets.

Strategic themes are the result of our first understanding of our position within chaos. We answer questions such as where am I, what do I want to achieve in general and on which areas should I concentrate. In business these could be as broad as a growth theme, rationalisation theme, innovation theme, etc. Businesses often have a range of two to a maximum of four themes that are current at any given moment.

Strategic themes are followed by **strategic goals** and are the result of our conscious (in business often formal – but not always) strategic planning exercise. These could be goals such as the capture of certain markets, development of a new product, etc. Businesses almost always have at least one strategic objective in each of the internal, market and external spheres. It is difficult for any CEO to manage many more than five to eight of these.

For each strategy certain **implementation targets** can be identified. These are visible in three categories, i.e. project milestones, process improvements and business improvements:

- **Project milestones** are visible in the completion of certain steps of a strategic project. For a marketing project this could be the completion of research by a specific date, the development of a campaign, etc.

- **Process improvements** are the performance measurements of certain business processes (which strategic projects seek to influence). This could be an improvement in reject percentage, labour productivity, etc.
- **Business improvements** are the ultimate improvements that strategies bring about. This could be an improvement in ROI, market share, etc. (Modern value-based management techniques seek to link process and business improvements. This is advisable, but it is a complex area of value-based management, and beyond the scope of our practical strategy development and implementation discussion.)

3.1 Managing "Smartness"

Under point 2 in this chapter we referred to Analoui and Karami's (2003, p. 125) description of SMART goals, i.e. Specific, Measurable, Achievable, Realistic and Time bound. We need a short introduction to these concepts:

- **Specific** objectives refer to the need to remove vagueness from the strategic process. This is true whether we are speaking of strategic themes, strategic objectives or implementation targets. "Growth" is vague (as a strategic theme), but "organic growth" is less so. "Improved product development and innovation" is vague (as a strategic objective), but "an annual increase of 10% in new products to market over the next 5 years", or "an increase in the share of new products in industry of 25% over the next three years" is specific.
- **Measurable** objectives mean that objectives, in final form, need to be measured in operational terms. This is discussed in more depth in the box on the balanced scorecard approach.
- **Achievable** objectives are as much a psychological concept as a physical one. If the targets are set too high a sense of hopelessness will ensue. A target which is set too low tends to create inertia.
- **Realistic** objectives require that objectives must be within the normal reach of the organisation.
- **Time-bound** objectives suggest that a specific time frame for success must be stated.

4. THE BALANCED SCORECARD AND OBJECTIVES

Kaplan and Norton, in their books on the balanced scorecard (*The Balanced Scorecard: Translating Strategy into Action* (1996) and *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (2001)), have created a very valuable new direction in strategic thought. It accentuates the importance of the relationship between objectives, strategy and the dynamic tools to measure strategy implementation (see box on the balanced scorecard and strategy maps, and also Chapter 15).

Balanced Scorecard and Strategy Maps

The study that eventually resulted in the development of the balanced scorecard was initiated in the belief that, in the information age, relying primarily on financial performance measures was insufficient. The two mantras "If you can't measure it, you can't manage it", and "You get what you measure" underscore this belief.

In the Balanced Scorecard Kaplan and Norton (1996) retain the financial perspective as a critical component of managerial and business performance, but supplement it with a more integrated set of measurements that also link customers, internal business processes and employee development to managerial and business performance.

The Balanced Scorecard, depicted in Figure 12, therefore provides a framework to link strategy with performance measures. The purpose is to articulate and communicate the strategy of the business, while aligning individual, organisational and cross-departmental activities and performance with the strategy.

Financial

Bottom line improvement

Customer

Performance in targeted market segments

Vision and strategy

Internal Business Process

Critical business process at which the organisation must excel

Learning and growth

Infrastructure that organisation must build to create long-term growth and improvement
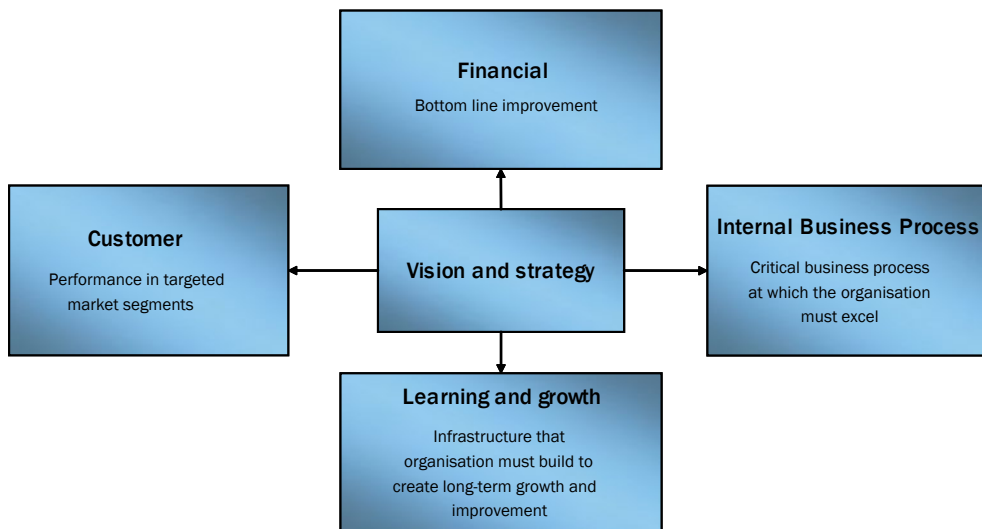
Figure 12: *The four perspectives of the balanced scorecard*

An important determinant of the successful application of the Balanced Scorecard is the ability to link a series of objectives and measures that are both consistent and mutually reinforcing. Kaplan and Norton take this concept further in their book The Strategy-focused Organisation: How Balanced Scorecard Companies Thrive in the New Business Environment (2001) by developing strategy maps. The strategy map for the Balanced Scorecard depicts the strategy's hypotheses through cause-and-effect relationships.

A simplified strategy map is depicted in Figure 13 (Kaplan & Norton, 2001, p. 125):
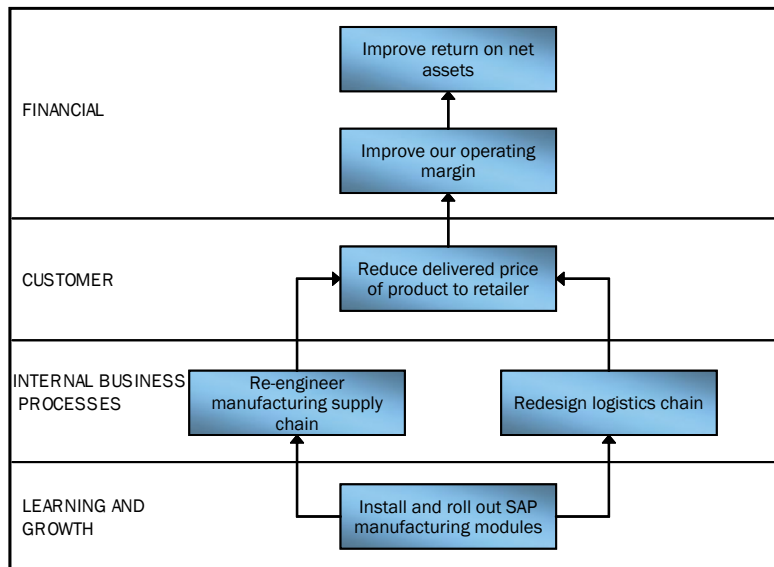
Figure 13: *Example of a strategy map to re-engineer manufacturing*

At the heart of the research that led to the publishing of their findings lies the fact that strategy implementation fails because of a lack of participation through the line (not only top management) and because of inadequate measurement tools, specifically designed to track the implementation of strategy. This is another way of saying that goals and objectives should eventually be stated in **operational** terms, directly related to the strategy, and then tracked and implemented by everybody (i.e. make strategy everyone's job).

5. SUMMARY

Human beings are not typically objective-orientated systems. We tend to "wander" through life, aimlessly, because objective-setting requires energy and we, by nature, conserve this energy as much as possible. Systems that apply this energy **economically** will always have an advantage. Certain principles will determine whether objectives are effective, the most important of which is that these goals are SMART (Specific, Measurable, Achievable, Realistic and Time-bound) and accepted.

The first step is always to find a "stamping ground" or area of thought; we call it to develop a "strategic theme". This is followed by strategic goals and implementation targets. It is especially important, when dealing with implementation targets, to distinguish between the project **milestones** of the implementation process and the actual **improvement** that the project brings about (both in process and business terms).

If we've engaged in the process of consultative thinking and understand that we need to develop specific strategic themes, we can begin to work on the strategic agenda. But is there a template, a "standard" sort of agenda that can guide us? In the next chapter we will explore the concept of the strategic agenda in greater detail.

Final take-out

GOAL-ORIENTATED BEHAVIOUR – Setting goals is not natural; we need to be aware of it and regulate our behaviour accordingly.

THE NATURE OF GOALS AND OBJECTIVES – Goals are hierarchical, **must** be accepted and adhere to certain principles (SMART). An unaccepted goal is **not** a goal.

A SIMPLE HIERARCHY OF OBJECTIVES – The initial goal is always goal-setting in itself (i.e. the first objective is to find an area or **theme** in which to think). This must be followed by strategic goals and implementation targets.

THE BALANCED SCORECARD AND OBJECTIVES – The golden rule is in-depth research to uncover and track the truly important **operational** measures in each of the Balanced Scorecard dimensions that will track strategy in a **participative** fashion.

SUMMARY – Goals guide us, but we need to consciously guide the guide.

CHAPTER 3

THE GENERICS OF STRATEGY IN BUSINESS

The core agenda and how it relates to objectives and consultative thinking

Critical issues for this chapter
THE STRATEGIC AGENDA – Is an agenda important?
THE TEMPLATE – Can we propose an agenda template?
DEEPENING THE AGENDA – Can we add the think/participate perspective to the agenda?
A FRESH LOOK AT RELATIONSHIPS – Can we add relationship thinking to these perspectives?
THE EXTENDED RELATIONSHIP AGENDA – Can we systemise current thinking on "standard" strategies?
SUMMARY – How do we pull these thoughts together?

1. THE STRATEGIC AGENDA

At the heart of strategic management is the "strategic agenda". Many case studies show that a proper strategic agenda seems to be missing from many companies and other systems. This does not mean that the agenda does not exist; it often does in an unconscious way, as a "gut feel" or as an "unwritten" strategy. There is no imperative for the strategic agenda to be written down in all cases. There is, however, an imperative for the agenda to be **known**, understood and relentlessly targeted. Without this behaviour the system is doomed to being second-rate. We frequently ask managers about the strategic agenda for their business and are astonished at the weak and misaligned answers we receive.

It is common for writers of strategy to find new concepts, core themes and standard agenda items for the era in which they write. A lot of great contributions to management literature have been made in this way and have lead to break-through strategic thinking by authors such as Mintzberg, Peters, Hammer, Senge, Porter and Hamel. The practical question for us is: is there a template? Is there a standard way to create and test the agenda to make sure that it at least covers what is important in the system?

2. THE TEMPLATE

A good place to start the search for a template is by looking at the IME model as described in Figure 4. We can extend this model to its **systemic properties** as depicted in Figure 14.

The strategic agenda **must** address issues in all three areas. The organism or system cannot survive without identity (external), a competitive advantage (market value proposition) and survivable DNA (internal strengths). The strategic agenda will always look at these three areas.

External	The rules of the game i.e. the networked environment
Market	Playing the game i.e. the value proposition
Internal	Enabling the team i.e. the organisational DNA

Figure 14: *Systemic properties of IME Model*

Certain generic agenda points can now be identified:

- The external agenda items deal with "rules of the game", i.e. governance and links with the external environment within which the system operates. It deals with governments, regulators, alliance partners, shareholders and the broader economic system. It seeks to optimise regulatory issues, partnerships and shareholder value through improved relationships and improved outcomes for the system as a whole. It also relates to the core reason for the system's existence, its identity and future positioning. For a human being this includes the governmental and societal laws within which he or she operates.
- The market value proposition agenda items deal with market positioning issues such as brands, products and services. It deals with customers and seeks to optimise market share through the acquisition and maintenance of better customers, the putting together of better deals and the delivery of better products and services to those customers. For a human being this includes the ability to compete for sustenance (food, shelter and air).
- The internal agenda items deal with the core constructs of the system, its DNA. Like any living organism, the DNA has two drivers for coming into existence, i.e. natural selection and chance. It is up to the evolving organism to increase the likelihood of survival by improving the selection methods and therefore strengthening the system within its environment. For a human being this includes core strength or health. For a business this will include financial assets, technological assets, people and intellectual property.

3. DEEPENING THE AGENDA

An obvious next place to look in our quest to extend the agenda would be the core drivers of strategy as summarised in Figure 3, i.e. level of participation and depth of thought. We can extend the descriptors in this model to include those that describe specific actions around ingenuity and relationships (see Figure 15). The level of participation in any strategy requires relationships. Without relationships no strategy can, in fact, be developed nor executed. Depth of thought requires "cleverness" or ingenuity. The art of ingenuity must be available and applied in the strategy formulation exercise.

The **nature** of these extended descriptors also means that the ideal situation is described differently for ingenuity and relationships. For ingenuity the descriptor is a **state**, a word that can be an adverb or adjective (such as robust, attractive or pragmatic actions). All relationships must be **sound**, so the descriptor here is the group of people with whom the sound relationships are sought.
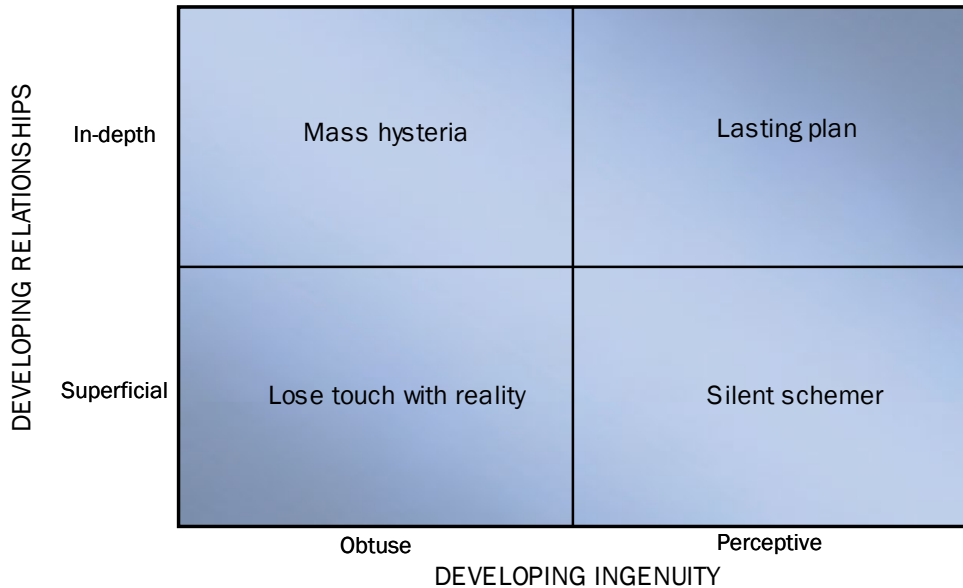
Figure 15: *Relationships and Ingenuity*

This means that the agenda now has six standard cells, i.e. external, market and internal on the one axis and ingenuity and relationships on the other axis (see Figure 16).

	State of ingenuity:	Sound relationships with:
External	Robustness	Investors, regulators, partners & the broader community
Market	Attractiveness	Customers (current & potential)
Internal	Pragmatism	Employees (current & potential)

Figure 16: *Describing the agenda*

- On the ingenuity level:
    - o **Robustness** means that the strategy must allow, on the one hand, for the robust survival of the system in the external environment. Will it have identity, trust, acceptance, partners, etc. in the future? On the other hand, the strategy for external positioning itself needs to be robust, under all given or expected conditions;
    - o **Attractiveness** means that the business' products and services must be attractive in the market place. It also means that the strategy itself must be attractive, under all expected supply and demand conditions; and
    - o **Pragmatism** means that the system must have the capabilities to survive. It also means that the system must have the resources to execute the chosen strategy or the wherewithal to obtain those resources easily.
- On the relationship level sound relations with **investors, regulators and partners** mean that the external environment can be managed properly; with **customers** they mean that the market environment can be managed properly; and with **employees** they mean that the internal production factors can be protected.

4.   A FRESH LOOK AT RELATIONSHIPS

Notice that in this model we have moved beyond the old saw of "our employees are our greatest assets". The fact of the matter is that businesses have many assets, but only employees can exploit, protect and multiply these assets. They are the only "asset managers" and no business can survive without them.

The ingenuity axis is quite self-explanatory, but in our systemic approach the relationship axis requires more clarification. Figure 17 illustrates three levels of relationships.
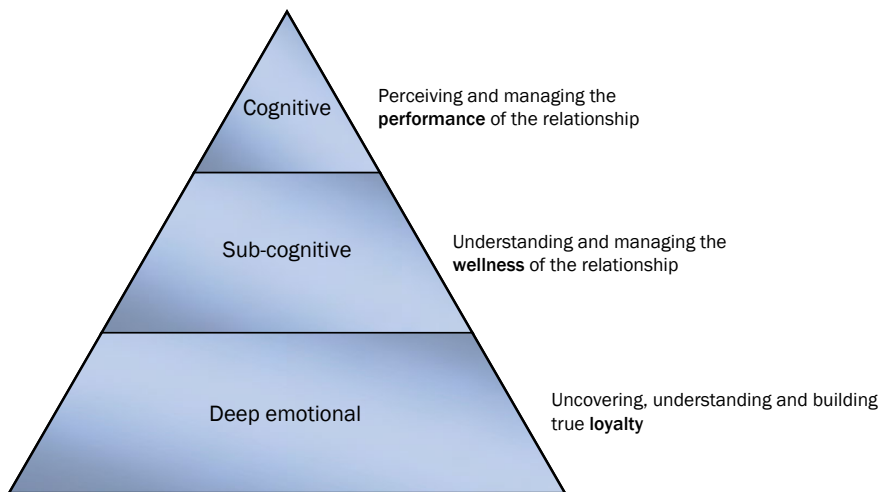

Figure 17: *Relationships deconstructed*

The upper level (cognitive) is the very visible elements of the relationship. On the face of it, do the couple appear to like each other, is the customer buying the product or did the soldier appear for the battle? This could be called **performance**.

The middle level (sub-cognitive) is less apparent. Is the relationship sound in terms of shared interests, etc.; even if the customer is buying is she satisfied with the product, customer service, etc.; and is the soldier comfortable, equipped and committed to the cause? We could call this **wellness**.

The deepest level (emotional) is often not understood but it is where true loyalty is uncovered. Will the couple stick together no matter what; will the customer remain a customer even when prices rise and short-term setbacks appear; and will the soldier remain fighting and follow orders, no matter what? This is the level of true **loyalty**.

This kind of thinking has been taken forward in leaps and bounds by Arnold and Amy Mindell's Process Work Centre[2]. Amongst others, the school describes three realities as depicted in Figure 18.
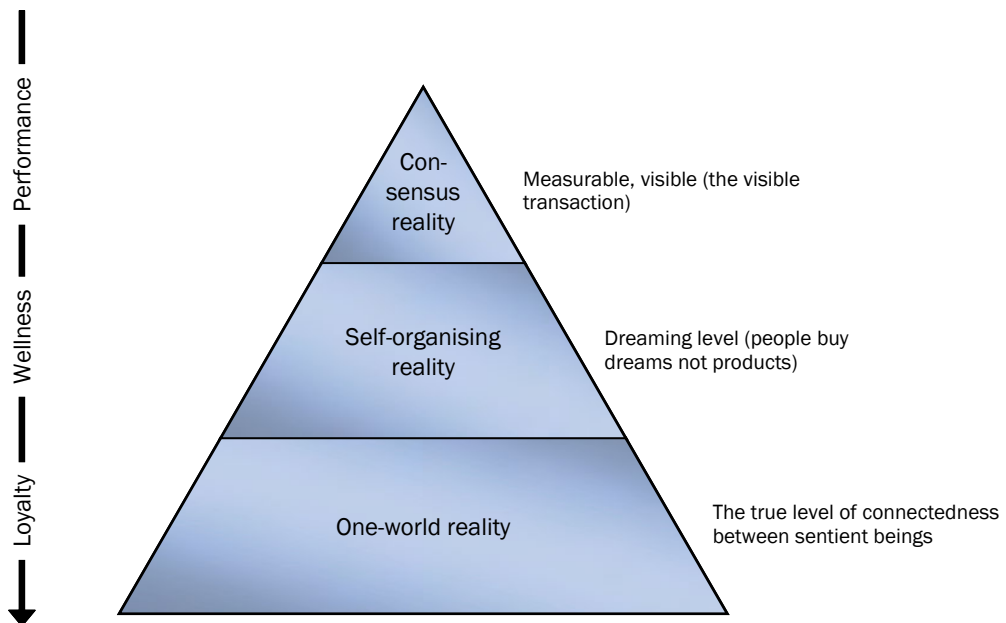
Figure 18: *Different realities*

In this work consensus realities are the visible physical realities or phenomena that we can see and agree upon, such as the properties of a product, transactions in the market place, etc. This is distinguished from the self-organising reality on the dreaming level, which is more experiential than physical. This is where we buy **dreams** rather than products and where we are

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[2] Arnold and Amy Mindell are part of the original group that founded process-oriented psychology. Process work is a cross-disciplinary approach to support individual and collective change. See *inter alia* Mindell (2002).

more interested in that which we cannot necessarily **see.** Max Schupbach[3] uses the example of paying much more for free-range eggs than for other kinds. We are buying into the dream of freedom. At the deepest level is the one-world reality. This is a state of true connectedness – we can also say true loyalty.

We incorporated this thinking into the relationships deconstructed in Figure 17 to say that relationships at the consensus reality level **perform** (or not), on the self-organising level are **well** (or not) and on the one-world reality level reach a state of true **loyalty** (or not). There also seems to be a hidden **hierarchy** at work here. Is it possible for a relationship to be well if it doesn't perform, or can loyalty be present if true wellness is not experienced? There is a complicated customer loyalty theory that seems to say that it is possible, but a case has yet to be found where this is true in a sustainable way.

5. THE EXTENDED RELATIONSHIP AGENDA

This deconstruction points to interesting themes that have stemmed from strategies in the last few decades and is summarised in Figure 19.

	Performance	Wellness	Loyalty
External	Share price	Transformational governance	Triple bottom line
Market	Market share	Customer satisfaction	Loyalty and value-added services
Internal	Performance measurement	Employee satisfaction	Employee loyalty

Figure 19: *The extended relationship agenda*

These agenda points seem familiar, but also point to a systemic view of quite a few "new" approaches to business.

The external relationship agenda

Many companies measure their success on the basis of their share price. This is the ultimate cognitive direct measurement for most. But isn't it true that this has progressed to governance, to the issues relating, for example, to Enron and Parmalat?[4] This goes beyond the mere price of the share towards eventually sustainable development and triple bottom-line reporting, the ultimate measure that will be required to make the environment "loyal" to the business.

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[3] Max Schupbach is, together with Doctors Arnold and Amy Mindell, a founding member of the Process Work Centres of Portland, Oregon, and Zurich, Switzerland.

[4] At both Enron and Parmalat the share price in no way reflected real responsibility or governance at these two businesses, leading to massive losses for shareholders and the near break-down of governance due to corporate greed.

The market agenda

With the market agenda, progress has been much more apparent. Towards the third quarter of the twentieth century many companies progressed beyond mere market share measures to customer satisfaction management. We've seen a proliferation of loyalty measurements and loyalty programmes lately, although the true meaning of the phrase and the proper management of customer loyalty still escape many companies.

The internal agenda

We started with employee performance management and supporting systems 50 years ago and this field has also shown some progress. There are some interesting case studies on employee wellness, but the issue of true employee loyalty is still in its infancy.

6. SUMMARY

The strategic agenda must be set (in any form – not necessarily written) and participation in execution presupposes that it must be known. It should deal with all three basic areas of the system - external, market and internal - and in all three those areas with performance, wellness and loyalty issues.

Now that we have set parameters for the agenda we can turn to a final aspect, that of physics theory, to guide us through an ever-increasingly chaotic world, i.e. chaos theory, and how to deal with the simple and the complex at the same time.

Final Take-out

THE STRATEGIC AGENDA – The agenda's imperative is not the written format, but the extent to which it is **known**.

THE TEMPLATE – The template view is a **systems** view. No two organisations are the same, but all **must** deal with external, market and internal issues.

DEEPENING THE AGENDA – The template can be extended to say that we must deal **ingeniously** with **relationships** on all three system levels.

A FRESH LOOK AT RELATIONSHIPS – We tend to look at the performance level of relationships (transactional). We should uncover deeper levels in our relationships, such as wellness and at the deepest level – loyalty.

THE EXTENDED RELATIONSHIP AGENDA – Relationships with external stakeholders, customers and employees must improve from entailing mere involvement, to caring wellness and finally to true loyalty. This is one of the holy grails of a successful strategy.

SUMMARY – A strategic agenda can only work if it is known and also only if it deals (in its extended form) with the parties that will **support** the system in the external environment, will **interact** with it in the market place and will **maintain** it internally.

CHAPTER 4

STRATEGY AND CHAOS

The simple and the complex

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Critical issues for this chapter

NEWTONIAN PHYSICS AND MANAGEMENT SCIENCE – What is the core of Newtonian physics and how does it relate to our strategy approach?

PLANCK, EINSTEIN AND HEISENBERG – Has physics moved on?

CHAOS AND STRATEGY – How does the new science relate to strategy?

THE PLACE FOR THE NEWTONIAN APPROACH – Does Newtonian physics still play a role?

KEY LESSON – Is there a key lesson to be learned from the new science?

A BASIC MODEL – How can we develop a basic model from the key lesson?

MODEL APPLICATIONS – What applications are there for the basic model?

CULTURAL DNA – Can we look at more advanced applications?

SUMMARY – How do we pull these thoughts together?

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1. NEWTONIAN PHYSICS AND MANAGEMENT SCIENCE

One of the greatest breakthrough thinkers of pre-modern times was Isaac Newton. He has been described as

> … a decidedly odd figure – brilliant beyond measure, but solitary, joyless, prickly to the point of paranoia, famously distracted (upon swinging his feet out of bed in the morning he would reportedly sometimes sit for hours, immobilized by the sudden rush of thoughts to his head), and capable of the most riveting strangeness. (Bryson, 2003, p. 41)

Part of this strangeness can be ascribed to the fact that Newton spent much more of his research time on alchemic pursuits and his involvement in Arianism (a sect believing that there is no Holy Trinity). In fact, a growing recent theory on Jesus, the crucifixion, Mary Magdalene and the Holy Grail, popularised by Dan Brown's book *The Da Vinci Code* (2004, p.113) and by Baigent, Leigh and Lincoln in *Holy Blood Holy Grail* (1996, p. 133), links Newton with a secret society, the Priory of Zion, where he was reportedly a Grand Master between 1691 and 1727. This link is unproven lore, but we do know that Newton spent many hours studying the floor plan of King Solomon's temple. (The Priory of Zion believed that secrets around the Holy Grail were hidden there in the time of the Knights Templar's "reign" in Jerusalem in the middle ages).

This strange and paradoxical character's contribution to "normal" physics is even more interesting. He was visited in 1684 by Edmond Halley. Halley was trying to calculate the curve

of planetary orbits around the sun. Newton, astonishingly, suggested that he had already calculated the curve and that he knew it was a sphere, but searching for his calculation – based on a piece of mathematics called the inverse square law – couldn't find it. Halley pressed on Newton the importance of the calculation and asked him to redo it and publish a paper. *It seems as if Newton had no idea of the importance of what he had found.* But he achieved even more than that. In typical character, he retired for two years and produced his masterwork *Principia* (1687), which made him famous for all time.

Newtonian physics is well-known and includes his three laws of motion and the universal law of gravitation. The greatest paradox of his heritage is that the laws of science that he set in motion are not what he himself would have liked to be remembered for:

> The universe that Sir Isaac Newton described was a seductive place. As the great clock ticked, we grew smart and designed the age of machines. As the pendulum swung with perfect periodicity, it prodded us on to new discoveries. As the Earth circled the sun (just like clockwork), we grew assured of the role of determinism and prediction. We absorbed expectations of regularity into our very beings. And we organized work and knowledge based on our beliefs of this predictable universe.

> It is interesting to note how Newtonian most organisations are. The machine imagery of the cosmos was translated into organisations as an emphasis on material structure and multiple parts. Responsibilities have been organized into functions. People have been organized into roles. Page after page of organizational charts depict the workings of the machine: the number of pieces, what fits where, what the most important pieces are. (Wheatley, 1999, p. 28)

2.   PLANCK, EINSTEIN AND HEISENBERG

It required a whole range of eminent physicists to produce the first major departure from Newtonian physics. The "birth" of this departure can probably be linked to Plank's quantum theory[5], published in 1900, followed by Einstein's five papers in 1905, including his famous Special Theory of Relativity. The world now began to understand that Newton's laws and gravity were not absolute, but rather events in and by-products of space-time. In time we would come to understand that an expanding universe has four dimensions, the three physical dimensions and time, and that these four dimensions are interwoven. These thoughts were taken further by Heisenberg's Uncertainty Principle in 1924, which stated that we can either know an electron's path or place, but not both at the same time. This means that you can never predict the electron's position and physics entered a new age with words such as Quantum Physics, Quantum Mechanics and Chaos.

Mintzberg, Ahlstrand and Lampel try to relate these new directions to strategy and management science:

> This represented an attempt to shift from a traditional scientific outlook, based on decomposing complex phenomena into simple and predictable elements, to one in which the system is seen as holistic and dynamic.

> A central tenet of chaos theory is that simple sets of deterministic relationships can produce patterned yet unpredictable outcomes. Put differently, order can produce chaos and chaos can lead to new order.

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[5] Quantum is an elemental unit of energy in physics. Quantum theory states that energy is not absorbed or radiated continuously, but discontinuously in quanta (Guralnik, 1978, p. 612).

However … disorder and chaos are intrinsic rather than alien properties of organisations. The constant disturbances that managers fight contain important creative opportunities, which can be harnessed to produce learning that transcends established ways of strategic thinking. (Mintzberg, Ahlstrand and Lampel, 1998, p. 222)

3. CHAOS AND STRATEGY

In spite of this new way of thinking Ohmae says:

Quantum physics is widely accepted and recognised for its significance. Nonetheless, we continue to expect that gravity will play a role in daily life. (Ohmae, 2001, p. 4)

And gravity will. Things will often continue as before and over time the models of gradual improvement, continuous enhancement and linear investments will pay off. But only until the mould is broken, until the next quantum arrives, until critical deconstruction starts something new.   That **will** happen and we cannot predict when.

This leaves us with two important questions, i.e. does the Newtonian approach to organisation and the way in which strategy is approached in the organisation still have a place and how do we prepare for quantum irregularities?

4. THE PLACE FOR THE NEWTONIAN APPROACH

Murray Gell-Mann developed an excellent model for understanding scientific theory and the orderly progression between theories from the most fundamental to the least, i.e. from mathematics, through physics, through biology to most of the behavioural sciences. He argues the impossibility of fundamentalism at nearly any level, but rather the importance of what he calls the "bridges" between sciences and scientific theory. He even allows for the maintenance of older theories:

The paradigm shift approach is concerned with such profound differences in philosophy and language between an old theory and a new one … I should like to call special attention to that feature, however, in order to point out that in the competition of schemata[6] in the scientific enterprise, the triumph of one schema over another does not necessarily mean that the loser is abandoned and forgotten. In fact, it may be utilized far more often than its more accurate and sophisticated successor. That is certainly true for Newtonian versus Einsteinian mechanics of the solar system. (Murray Gell-Mann, 1995: 87)

Management science and strategy, based on Newtonian physics, have served us well and will probably continue to do so. What is important, however, is to maximise the lessons from quantum theory in our organisations.

5. KEY LESSON

The key constructs of the new theory, in very basic terms – and for the sake of our argument - are based on the concepts of order and chaos and the critical state in-between:

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[6] "Schema - An outline or image universally applicable to a general conception, under which it is likely to be presented to the mind; as, five dots in a line are a schema of the number five; a preceding and succeeding event are a schema of cause and effect" (BrainyDictionary).

> A decade of research by hundreds of other physicists has explored this question and taken the initial idea much further … but the basic message, roughly speaking, is simple: the peculiar and exceptionally unstable organisation of the critical state does indeed seem to be ubiquitous in our world. (Buchanan, 2003, p. 13)

Strangely enough – and a point that physicists don't acknowledge readily - this dualism has an ancient philosophical heritage. It is old as the Cro-Magnon people of 25 000 years ago acknowledging the "struggle" between the sun and the moon, seasons, etc. It was taken further by Greek philosophers and their struggle with the concepts of form and matter, i.e. either everything is perfect form and frozen in this state or everything changes forever, "*panta rei*" (ubiquitous flow), which means that Heizenberg's Uncertainty Principle, as a philosophy, can be said to be 2500 years old! (This principle in Greek philosophy can also be described as the problem of the "one and the many" or the "plurality of cosmic unity vs. multiplicity" – Copleston, 1962, p. 94).

This is an important point, for it seems that the total fabric of creation is suspended around the critical point of order and chaos. This includes the core fabric of the atom, quarks, through to the make-up of our physical world (the earth's crust, etc.), the core tenets of the evolution theory, our DNA, history and all the behavioural sciences. Stable states are followed by minor upheavals and then, from time to time, major upheavals. **We cannot predict the time of the upheavals nor their size, but the patterns are ubiquitous, measurable, predictable and, above all, certain.** These patterns follow a power law and deep research into these power laws has been conducted; they have been well described by, among others, Mark Buchanon in his books *Ubiquity* (2000) and *Small World* (2003).

6. A BASIC MODEL

The question then arises as to how we can incorporate these insights into our strategy preparations. A good place to start is to look at the two elements that we have described up to now, i.e. change that relates to progressive, predictable (one could almost say Newtonian) events and change that relates to quantum events (let us call this chaotic or quantum change). Buchanan (2000) explains quite adequately in *Ubiquity* how progressive changes are merely stepping stones to chaotic change, i.e. these events are all part of one progression, unpredictable but pattern-deterministic in behaviour. In the field of human history we **experience** history and change differently. We work with and experience gradual, or evolutionary, change in a gradual, daily fashion. This is the metaphorical car that we adapt, improve, fit with better brakes and systems, etc. At the same time we work with and experience sudden quantum change where we re-invent. Our metaphorical means of transport might now be a flying car, a totally new and revolutionary concept of transportation or even astral projection.

In both cases we will always be objectively involved (we will be affected by the event) and sometimes subjectively involved (we will be the architect of the event). History will impact on us, but can we impact on history and how? Once again we need to turn to a simple model (see Figure 20).

The model indicates a point of equilibrium or tipping point (see box on tipping points and criticality). The model also suggests that transformational architects, i.e. subjective (rather than objective) systems at work at the point of change have a better chance of survival. The second best chance for survival is offered to an objective system which has gone through a learning process, i.e. preparation for the transformation.

This is why **change agents** always survive best at points of change and, at the second tier, people who have been prepared for change.

The critical question is: what are the characteristics of a system that is either a change agent or that has been prepared for change?
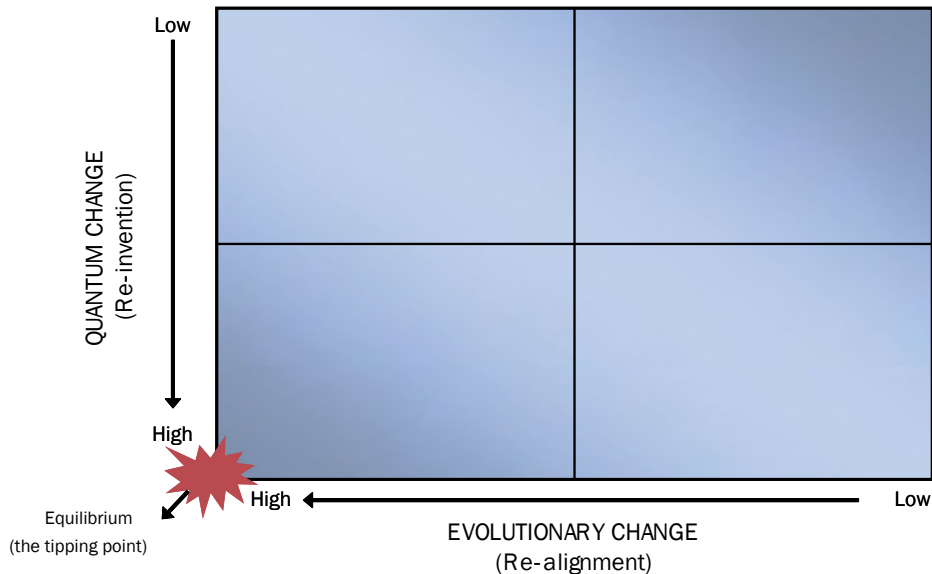

Figure 20: *Structured Chaos (Andersen, 2000)*

Tipping points and criticality

The tipping point in the model is an interesting phenomenon and relates to the earlier references to a "critical state":

> The word *critical* arises in connection with the peculiar condition that matter gets itself into when poised exactly between two kinds of organisation. Water held under just those conditions, for example, is neither a vapour nor a liquid. This is known as the *critical state* since it is the knife's edge between two utterly different conditions ... The new theory, that is, applies to situations in which static, unchanging nothingness transforms into vibrant, changing dynamism, which is exactly what the tipping point is all about. (Buchanan, 2003, pp. 177-178)

The tipping point has a few interesting features. When a system is bombarded with forces for change (such as heat applied to water), change happens gradually up to a point of rapid deconstruction (the boiling point) at which time chaos and rapid change sets in. In a recent example the throughput of commodities through a port was monitored. Interestingly certain "tipping points" (expressed as capacity utilisation) were observed. As long as capacity utilisation remained below a certain figure, the port operated smoothly, but raising capacity utilisation only very slightly, beyond the observed tipping point, will bring utter chaos to the system (the proverbial straw that breaks the camel's back)

The principles of tipping points are as follows:

1. Research has shown that true creativity, change and positive transformation is accelerated with life "on the edge", i.e. close to the tipping point;

2. What is also true is that deconstruction and extinction occurs at this point, if a system cannot adapt; and

3. These tipping points are **pervasive** (they will occur), and **unpredictable** (due to complexity).

Preparation for these critical states therefore lies in two types of behaviour: (1) preparing for transformation through learning; and (2) trying to be **subjective (i.e. the architect)** in the process, rather than **objective**. This would require becoming a transformational architect.

7.   MODEL APPLICATIONS

We can apply the model depicted in Figure 20 to three organisational perspectives, i.e. structure, organisational behaviour and business processes.

7.1 Structure

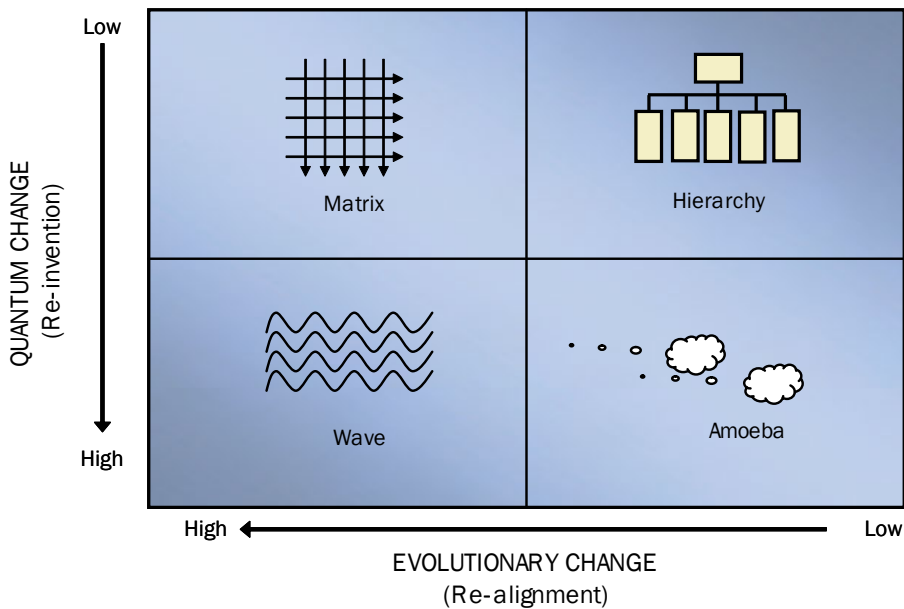The application of chaos theory to structure is depicted in Figure 21.

Figure 21: *Organisational structure and criticality*

- **Hierarchical structures** have little survivability during either evolutionary or quantum change. This is because information sharing and communication is sluggish, creativity is layered and therefore often suppressed, and slight changes cause collapse.

- The **matrix structure** allows for better communication, but is still slow and rigid. It therefore supports survival during gradual change and allows organisations to adopt new schemata. During rapid change conflict often arises around the two-directional arrows, which slows reaction time and is often fatal.

- The **amoeba structure** doesn't allow for the re-invention of a specific cell, but rather its "spawning". This means that cells in themselves often don't grow and many die, but rapid change and extinction allow some to survive. Many organisations toying with amoeba structures are dumbfounded that many small businesses which were started didn't survive.

- The **wave structure** supports the best qualities of both the matrix and amoeba structure. It allows for teamwork and flow (such as in matrix organisations), but it is not based on rigid rules. It allows for "spawning" as the resonance of the wave expands, but it keeps the original wavelength and resonance intact, i.e. it has strong learning controls.

7.2 Organisational behaviour

The application of chaos theory to organisational behaviour is depicted in Figure 22 below.
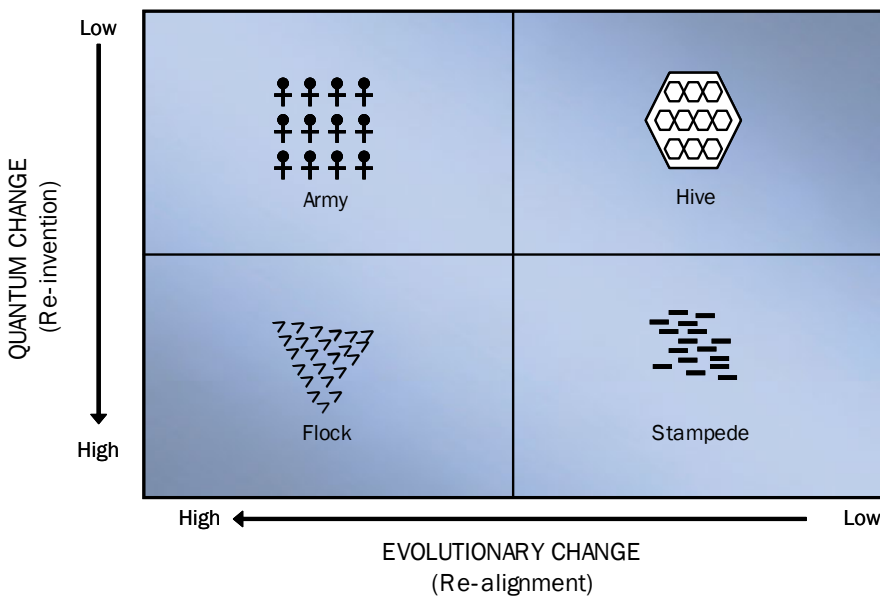

Figure 22: *Organisational behaviour and criticality*

- **Hive** behaviour refers to an incessant need to stick together and work inwardly rather than outwardly. Because nothing in the external environment is noticed, no change (evolutionary or quantum) is supported.

- **Army** behaviour can deal with evolutionary change, because it adapts to new situations over time, but struggles with quantum changes as supply lines become stressed.

- In a **stampede** evolutionary change is not possible, because the core links between nodes do not operate any longer. The very nature of a stampede, however, literally means that some elements will outrun the problem.

- **Flock** behaviour encapsulates the best elements of army and stampede behaviour. The behaviour is outwardly focused and the vision is to move forward. The load is shared and different elements take turns to lead. The communication is fluid and bi-directional, but the links between the nodes are strong. Critical events will have difficulty destroying the core "resonance" and survivability is at its highest.

7.3 Process

In classic process theory, depicted in Figure 23, functions are seen as rigidly following on each other, with various roles taking responsibility for each step. This approach leads to an insidious state of tension and poor integration between various organisational functions, for instance the classical battle between marketing, production and logistics. It is extremely challenging for the organisation to change direction successfully.
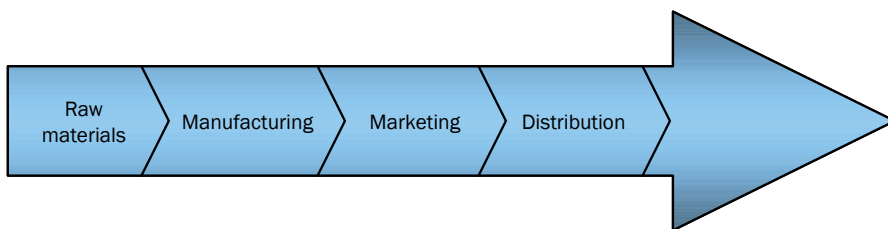

Figure 23: *Classic process model*

In the new approach, (depicted in Figure 24) processes are seen as seamless waves. The resonance of the wave is carried from event to event and all parties are involved in each step (like a flock), but different parties might be "flying in front". A clear description of goals (though easy to adapt) is critical in such complex systems.

The new theory can be taken further to look at more complex systems, such as cultural DNA.

8.   CULTURAL DNA

The idea of a "point of criticality" can be taken much further into all complex adaptive systems and even groups of complex adaptive systems, i.e. cultures. Gell-Mann (1995) describes how cultures adopt certain schemata and then adapt these through the life of a culture. On a very basic level cultures apply dominant schemata right away when the circumstances that require the application arise (i.e. moving to the hills when the plains are dry or performing a specific rain dance). At the next level revolution takes place and different schemata are adopted (in our example different agricultural techniques might be applied or different religions adopted).

Finally, at the highest level, survival or extinction occurs. These factors also have a time scale:

> The three levels of adaptation take place, generally speaking, on different time scales. An existing dominant schema can be translated into action right away, within days or months. A revolution in the hierarchy of schemata is generally associated with a longer time scale, although the culminating events may come swiftly. Extinctions of societies usually take place at still longer intervals of time. (Gell-Mann, 1995: 294)
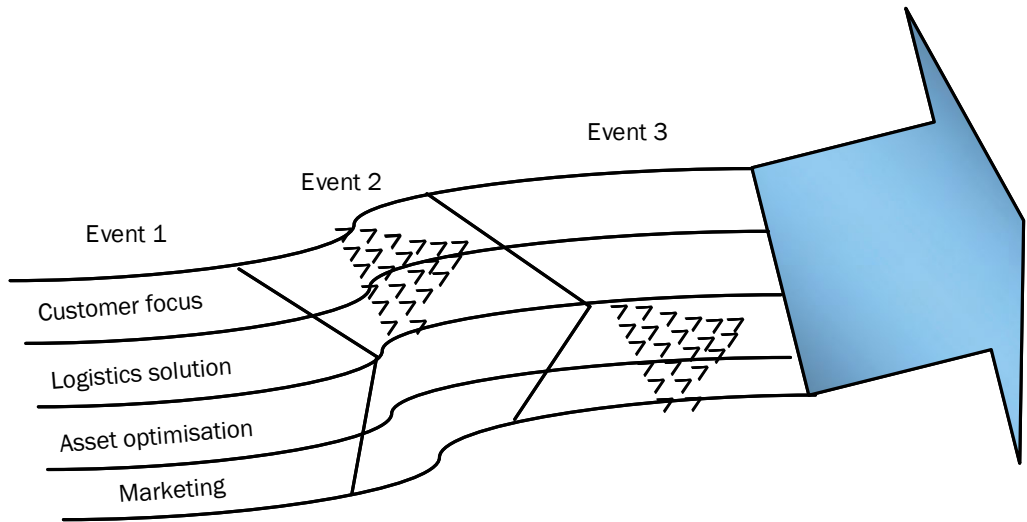
Figure 24: *The new process model*

(Notice that the word "schemata" can be interchanged with strategy, which makes Gell-Mann's excellent best-seller on quantum physics *The Quark and the Jaguar* (1995) an interesting and enlightening book on strategy.) We can take this description further and relate it directly to the IME model (Figure 4). This points us to the criticality between growth and decline as depicted in Figure 25.

We often ask the question about strategic "time horizons". Generally speaking, operational procedures or internal strategies are quicker to adopt and deploy than external strategies.

	Growth	Decline		Time
External	Survival	Extinction		Long term
Market	Revolution	Counter-revolution		Medium term
Internal	Operation	Inertia		Short term

Figure 25: *IME, criticalities and time*

It is also important to note the confirmation that **survival** cannot be determined internally – that would be a contradiction in terms. Survival means "hanging on" in an external context and can therefore only be referenced externally, which in turn means it can only be understood and confirmed on that level. Extinction is always the failure of a system to interact externally.

At the same time **revolution** can never be successful as an internal concept. Change merely for the sake of change will always fail. Revolution is always about a system's **interaction** in the market place through transformation. The most common example would be to purchase commodities in the market place (i.e. revolutionising the flow of these commodities), transform these and sell them, once more in the market place (thereby revolutionising previous acquisition patterns of the transformed commodities).

Internally we talk about **operations.** A growing system will increase and optimise operations in an efficient and effective way. In the declining state, inertia sets in and the system eventually runs down.

Strategies, as stated earlier and confirmed by this model, have to deal with all three levels.

9. SUMMARY

The fundamental science of physics should be linked to the behavioural sciences in a more conscious fashion. Exploitation of this bridge has revealed to us that Newtonian physics have been enriched by quantum physics and that many of these principles are still lost on management science and strategy. At the centre of this learning is our new understanding of creativity, which is at its strongest at the point of criticality.

This understanding prepares us for the next step, the actual strategy development process.

Final Take-out

NEWTONIAN PHYSICS AND MANAGEMENT SCIENCE – Physics is one of the "fundamental" sciences and Newtonian physics in many ways the reference point of modern management science and strategic thinking.

PLANCK, EINSTEIN AND HEISENBERG – Physics has moved on from the Newtonian age to the age of quantum physics.

CHAOS AND STRATEGY – If physicians have adopted quantum physics, so should management scientists and strategists.

THE PLACE FOR THE NEWTONIAN APPROACH – The fundamental principles of Newtonian physics have served us well. We need to **expand** our thinking, rather than change it.

KEY LESSON – Everything is suspended around the critical point of order and chaos.

A BASIC MODEL – At the core of criticality is a tipping point, which is certain but unpredictable.

MODEL APPLICATIONS – Preparation for the "tipping event" can involve trying to be a change architect, preferably, or at least trying to learn and prepare for the event.

CULTURAL DNA – Cultural change is also hierarchical, where survival and extinction are dependent on revolution and counter-revolution, operation and inertia.

SUMMARY – The new science enriches the old science and expands our understanding of strategy.

PART 2

THE STRATEGY DEVELOPMENT PROCESS

THE STRATEGIC PROCESS IN ACTION

Guidelines for effective consultative thinking

Critical issues for this chapter

ASSUMING THE PROCESS – Can we propose a standard strategic process?

DECONSTRUCTING THE PROCESS – How do we get from theory to practice?

GROUPWORK – How do we optimise groupwork?

SUMMARY – How do we pull these thoughts together?

1. ASSUMING THE PROCESS

Many authors on strategic thinking, development and implementation generally **assume** the actual creative process. A lot of work has been done on Nominal Group Techniques, teamwork, etc., but it is not always clear if a specific, defined and implementable process can be put into action that will deliver results and will ensure wide participation. The objective is quite clear: we would like a process that will ensure depth of thought and maximum participation (refer to Chapter 1).

In the first chapter we deduced that, when trying to achieve any goal in any human endeavour, it is necessary to consult widely and let all affected parties consider their strengths and advantages, all the weaknesses and disadvantages, map out a course of activities to achieve the goal and implement these activities.

In a very basic sense this guides us to the strategic process. It is not much **more** than this on a basic and uncomplicated level and it is, in a certain sense, unnecessary to complicate the process further. The obvious aspects to add are effective intelligence gathering and possible future events in the external environment (often called scenarios).

This would extend our definition to say: **when trying to achieve any goal in any human endeavour, consult widely and gather as much intelligence as possible, let all affected consider their strengths and advantages, all weaknesses and disadvantages, map out a course of activities to achieve the goal (taking into account expected future events) and implement these activities.**

The definition is becoming a bit unwieldy, but can now be seen as a comprehensive strategic planning definition and, ultimately, as describing the strategic planning process.

2. DECONSTRUCTING THE PROCESS

In this second part of the book the reader is provided with a step-by-step guide to steer a large group through this process. The authors have applied the process to a wide variety of companies over the last few years and will refer to some specific examples. It was decided

to use four case studies, i.e. a large utility, a large food production company, a municipality, and a paper products manufacturer. These companies are all currently operating in Africa and some abroad; care is taken to protect their identities. In most cases this was achieved by "composite" cases, i.e. incorporating the story of more than one company in the same industry in the case study. The case studies are discussed in Chapter 16 and it will be useful for the reader to read the cases before the rest of Part 2 is studied.

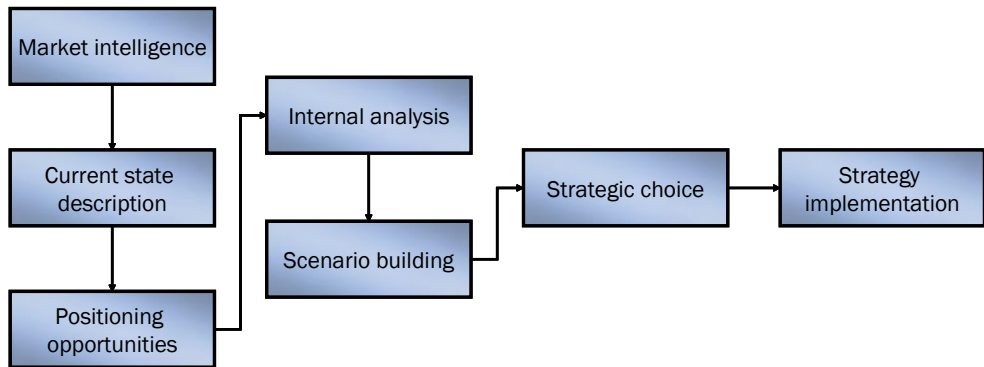The strategic process followed in the rest of this book is deconstructed in Figure 26.

Figure 26: *The strategic process*

2.1 Introduction to the elements of the strategic process

The strategic session is normally scheduled over a 2-day period. Depending on the company's situation at the time, certain elements will receive more attention and others less. The logic of the process does, however, remain valid and guides participants through a certain thought process to facilitate strategic thinking. But it is critical to keep in mind that the strategic process of an organisation must never be limited to this discussion. The intelligence gathering, strategic discussions and debate that inform strategic choice should be a continuous process. The strategic session is in many instances simply required to formalise and align the strategic choice for communication to the broader stakeholder base, which includes employees, investors and regulators alike.

The elements of the strategic process are briefly introduced here. The details of each element are described in the rest of Part 2 and 3.

1. Market intelligence – An understanding of the internal, market and external environments is critical to inform strategic decisions.
2. Current state description – The management team must articulate the strategic issue that has to be addressed, e.g. is it an annual strategic review, is it a decision to change the course of the business, or are we trying to deal with a very specific issue within the business?
3. Positioning opportunities – This is a view external to the company and is normally valid for most companies operating in this or similar industries. What is required of

a company in my industry to be successful? What are the key opportunities to be exploited and what are the key threats that should be counteracted?

4. Internal analysis – We also need to understand what the company's internal strengths and weaknesses are, as this will impact on which strategies can be executed.

5. Scenario analysis – Scenario analysis enables us to determine the future robustness of our strategic choice. We identify and describe the external forces that will have the most significant impact on our business in future. Once a strategic choice has been made, we assume that it has been successfully implemented and look at the changed company. Will that changed company survive in the given future scenarios that we defined?

6. Strategic choice – The management team must take into account the prior analysis and make the "strategic sum". Given everything that we are faced with (good and bad), what should the business do to deliver maximum value to all stakeholders?

7. Strategy implementation – The real work starts here! Firstly, we must understand the readiness of our organisation to implement the strategy. Are the **leaders** equipped for implementation? Does the current company **culture** support the implementation? Do our **people and processes** have the capacity to implement the chosen strategy? Secondly, we must develop a plan to consciously track the implementation of the strategy. We make use of Kaplan & Norton's Balanced Scorecard approach (refer to Chapter 2 and Chapter 15).

3. GROUPWORK

It is by no means necessary for a large group to have a specific face-to-face "event" to exercise the described process. The process could be virtual, executed over a period of time. For the sake of simplicity and because the more complex options become a field of study in themselves, the simple face-to-face strategic "breakaway" is assumed. The incredible amount of waste still related to and observed at these sessions means that an improvement of these processes specifically will make a contribution.

When groups meet a few basic principles are at work:

1. **The process should allow maximum participation.** The process must be designed in such a way that all present have an opportunity to participate at all levels.

2. **A specific objective must be achieved.** This is true for the overall meeting and for sub-elements of the meeting. Each discussion must have an objective and outcome.

3. **Ensure that the group represents relevant disciplines of the organisation.** Valid conclusions can only be reached if all relevant perspectives are taken into account. Creative tension is an advantage, if applied correctly.

4. **"Breakaway" groups are only useful if the groups stay close together and the results are thoroughly summarised.** It is often a good idea to have the discussion in a big hall, with plenary discussions in the middle and breakaway groups in the corners. This means that "contact" is never lost, the "strategic energy" rises in the room and delegates are not tempted to wander off. After each breakaway group meeting, the facilitator must take care to capture and summarise the key points from all groups and strategically interpret these for the delegates.

5. **The composition of the breakaway groups must be representative of the larger group.** The facilitator must put in some effort to "balance" groups, according to functions, knowledge and experience. This need not be, and in most cases should not be, a democratic process.

6. **The quality of facilitation is crucial.** It is our belief that the strategic thought process must be guided by an independent strategy facilitator. The successful management of the group interaction, the succinct summary of the group feedback and the strategic interpretation of the results are key to the success of the session.

7. **Open space technology ideas are useful** (see box on open space technology). This process allows the free emergence of ideas, but also for free adherence to these ideas. Delegates should never be forced to occupy a space to which they cannot subscribe.

(Refer to Chapter 9 for criteria for participants.)

Open space technology

Open space technology (OST) was created in the eighties, based on the ground-breaking work of Harrison Owen and described in his book, *Open Space Technology: A User's Guide* (1995). The groupwork application is especially useful in large groups (hundreds and even thousands of people) that need to join in consultative thinking. There is no obvious minimum or maximum, but what is more important is for the practitioner to take note of Owen's principles and apply these, especially for larger groups. We have used the methodology, in groups of 300 and more, and some of the principles for groups of around 50. It works.

OST works best for large diverse groups looking for an unknown solution. If a strong leader "thinks" he has a solution and wants to bring that to the table, the approach will not work. The technology is based on creating a circle (the fundamental geometry of human communication) and openly allows anybody to state a cause/solution/line-of-thinking associated with the problem. Breakaway spaces are created where "cause leaders" can hold discussions on their topic. At a "market place" discussion times and appointments are posted by the "cause leaders". The "cause leader" then captures the proceedings and these results are brought to the plenary circle for communication.

All attendance, leadership, etc. is voluntary. Anybody can post a "cause", explore it, arrange discussions and write up the proceedings (even if only one person joins the discussion, but the write up must illustrate who the course leader was and who participated). Anybody can attend any discussion, remain with one, move from one to the other or not even participate at all. Strangely enough, the process works very well for large groups and it is a great way of getting these groups through a useful experience. Owen says that "voluntary self-selection is the absolute *sine qua non* for participation in an Open Space event" (Owen, 1995, 22).

The core values attached to OST are: 1. Show up, 2. Be Present, 3. Tell the Truth, and 4. Let it all go. The ultimate facilitator "will do nothing and remain totally invisible". The principles are: 1. Whoever comes are the right people, 2. Whatever happens is the only thing that could have, 3. Whenever it starts is the right time, and 4. When it is over it is over.

3.1 The nominal group technique

It has been estimated that as much as 50-80% of a manager's time is spent in group meetings (Virginia Institute of Government). Most managers, however, feel that much of this time is not spent effectively. We certainly do not want the strategic session to contribute to this perception!

Various methods can be employed by the facilitator during a strategic workshop to enhance creativity and productivity, to balance and increase participation and to reduce errors based on groupthink. According to Hill & Jones (1995, p. 21), groupthink "occurs when a group of decision makers embarks on a course of action without questioning underlying assumptions." This is normally the case when a strong individual hijacks the process.

The method we follow is based on the Nominal Group Technique, developed by Andrew Delbecq and Andrew Van de Ven (as described in an article by the Virginia Institute of Government) specifically to counter the problems experienced during groupwork. The purpose of the technique is to eliminate social and psychological dynamics of group behaviour which tend to inhibit individual creativity and participation in group decisions.

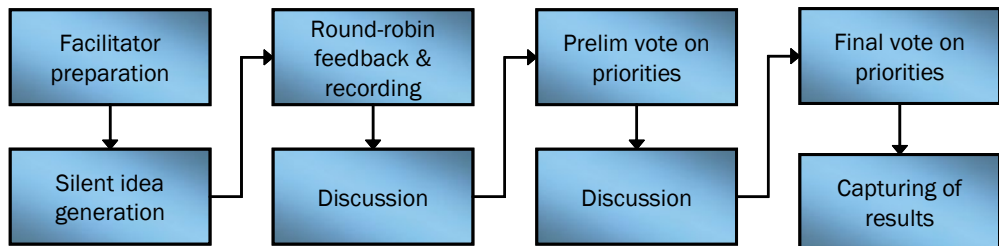The steps in the technique are depicted in Figure 27 below:

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┌──────────────┐     ┌──────────────┐     ┌──────────────┐     ┌──────────────┐
│ Facilitator  │ ──▶ │ Round-robin  │ ──▶ │ Prelim vote  │ ──▶ │ Final vote   │
│ preparation  │     │ feedback &   │     │ on priorities│     │ on priorities│
│              │     │ recording    │     │              │     │              │
└──────────────┘     └──────────────┘     └──────────────┘     └──────────────┘
       │                    ▲   │                ▲   │                 │
       ▼                    │   ▼                │   ▼                 ▼
┌──────────────┐     ┌──────────────┐     ┌──────────────┐     ┌──────────────┐
│ Silent idea  │ ──▶ │  Discussion  │ ──▶ │  Discussion  │     │ Capturing of │
│ generation   │     │              │     │              │     │ results      │
└──────────────┘     └──────────────┘     └──────────────┘     └──────────────┘
```

Figure 27: *Steps in the nominal group technique*

To ensure the successful participation of the group and the validity of results, the facilitator must prepare thoroughly and clearly formulate each issue to be addressed. This is normally done in conjunction with the leader of the team.

The silent generation of ideas in writing provides each individual with the opportunity to focus, think about the issue at hand and generate ideas. It avoids the typical scenario where strong personalities dictate the outcome. The result is more diverse and creative.

The facilitator then gives participants the opportunity to describe ideas on a round-robin basis until everyone's list is exhausted. Each idea is recorded. This process allows for conflicting ideas to be recorded and reinforces participation and concentration. The facilitator must not allow discussions and debate to start before all ideas have been recorded; there is always a risk that a very creative idea could be lost!

The opportunity is then provided to briefly debate each idea that has been recorded. The facilitator must ensure that ideas are properly qualified and that all ideas receive equal attention. This approach promotes the critique of ideas and not individuals.

The participants then cast a preliminary vote to determine priorities. To ensure that this is a truly democratic process and all votes are equal, this is normally done silently and independently. Each participant chooses and lists three ideas in order of priority. The facilitator collects and collates the votes.

The opportunity is provided to discuss the result of the preliminary vote. Any uncertainties must be clarified. At this stage, the penny-principle also kicks in...

> *Whenever you're called on to make up your mind,*
> *And you're hampered by not having any*
> *The simplest way to solve the dilemma, you'll find,*
> *Is simply by flipping a penny.*
> *No, not so that chance shall decide the affair*
> *As you're passively standing there moping.*
> *But as soon as the penny is up in the air,*
> *You'll suddenly know what you're hoping.*
> (The Economics Press (UK) Ltd, p. 3)

The final vote on priorities is then cast in the same manner as the preliminary vote. All members now have the opportunity to independently contribute and judge ideas, increasing the commitment to the process and the results.

The results must be captured to ensure that a record of the priorities is kept.

A variation is to divide the group into subgroups. (Our experience has indicated that the ideal size is approximately 6 members per group, although it becomes extremely difficult to facilitate more than three sub-groups – i.e. in groups of more than 18 people we allow for sub-group sizes of more than 6.) Each group then generates ideas and the ideas are then summarised in the same manner as above. This allows for some strategic debate prior to the discussion with the larger group, and enhances thinking and understanding of the issue.

Depending on the time available, the sub-groups can work on the same topic or on different topics. Different topics are not always advisable, however, as cross-pollination between the various groups is invaluable for strategic energy and creativity.

4. SUMMARY

The strategic process consists of a few basic elements that can guide a management team through a thought process to make a strategic choice. The quality of facilitation, the quality of the team and the extent of the participation from all members of the team will determine the validity of the strategic choice made.

Final take-out

ASSUMING THE PROCESS – The strategic process can be defined and applied to any strategic issue.

DECONSTRUCTING THE PROCESS – The elements of the strategic process are basic strategic concepts that can be learnt and applied.

GROUPWORK – Groupwork is an essential part of strategic choice. The basic principle is to allow wide, unjudged participation, guided by an experienced facilitator.

SUMMARY – The old maxim applies: "What you put in, is what you get out". The strategic process is simple, but the quality of the output is determined by the quality of the input.

CHAPTER 6

PREPARING FOR EFFECTIVE DISCUSSIONS

Basic thoughts for research – war intelligence gathering

Critical issues for this chapter
IMPORTANCE OF INTELLIGENCE – Do we need to know?
THE DRIVERS OF INTELLIGENCE – How do we make trade-offs?
THE ROLE OF INTELLIGENCE – What is the link between decision-making and intelligence?
THE IMPORTANCE OF DECISIONS – How do we minimise inertia?
THE LOGISTICS OF INTELLIGENCE – Bridging the time and place differential
TYPICAL STRATEGIC INFORMATION – Principles for selection of strategic tools
SUMMARY - How do we pull these thoughts together?

1. IMPORTANCE OF INTELLIGENCE

There are a huge number of case studies explaining and illustrating the value of good intelligence before any campaign – be it military, scientific, business, sports or personal. Intelligence successes, such as those in the Second World War where Japanese and German codes were broken and subterfuge was successful (such as with D-day), are also well known. But what is the minimum amount of intelligence required before certain decisions are made? And how long should intelligence efforts last before a decision is taken? A few practical questions will almost always remain unanswered.

One of the interesting examples of the role of (or the lack of) intelligence is the exploits of the *conquistadors* in South America at the height of Spain's domination of the world. The *conquistadors* used subterfuge to get the village together; killed many of them based on trumped-up religious reasons for a "war", then caught the local king or leader and ransomed him for all the gold that the rest of the population could bring. This seems like an excellent strategy – though quite cruel - but under what conditions will the strategy not work? One such a condition would be the spread of **knowledge** of the Spanish strategy, which remarkably, right through their campaign – over years – didn't spread for more than 40 kilometres at a time.

What would have been important for the inhabitants of South America? If they could have warned other villages quickly, with an accurate description of what the Spanish were up to and if they could do it without further major loss of life (i.e. keep the "cost" of the intelligence down), they would have done well. Intelligence almost always has these three important drivers, i.e. speed, accuracy/quality and cost. These three elements are involved in a perpetual trade-off that can be quite difficult to manage.

2.   THE DRIVERS OF INTELLIGENCE

This then points us to the drivers of intelligence depicted in Figure 28.
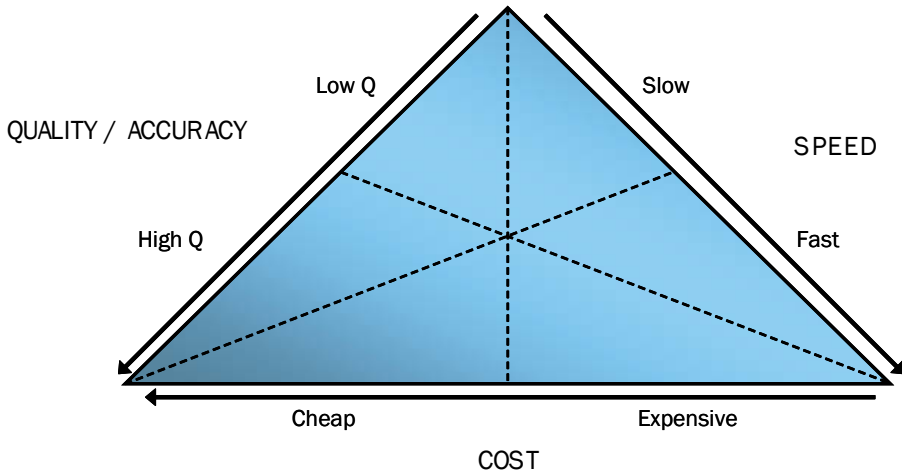

Figure 28: *The drivers of intelligence*

1.   **Intelligence that is gathered quickly** is worthless if it is (i) inaccurate or of very poor quality and (ii) too expensive (costing more than the potential gain from the resultant campaign on which it is based).
2.   **Intelligence that is accurate and of high quality** is equally worthless if (i) it is received too late to influence a campaign, (ii) an important campaign is delayed up to the point where it cannot be launched anymore (the opportunity is lost) or (iii) it is too expensive.
3.   **Cheap intelligence** is also worthless if (i) the quality is substandard or (ii) it is obtained too late.

The intention with intelligence, like all production factors, is to get the most efficient and effective result for that production factor. That is, we would like cheap intelligence that is useful and accurate, immediately. Unlike some of the other, more "common" production factors, this is often not managed properly. In the time of the knowledge economy many economies, especially emerging and third world economies, still have to learn this lesson.

Knowledge management as such has become a major discipline in the first world, aptly highlighted by well-documented case studies, such as Buckman Laboratories[7]. Yet, we lack an uncomplicated and simple approach to incorporate it into the strategic process and often, even in the first world, make the trade-off mistakes. If we take Figure 28 a little bit further and attempt to analyse the trade-offs, certain specific issues are highlighted as depicted in Figure 29.

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[7] Buckman is a benchmark knowledge management case study used in business schools around the world. Tom Peters gives a short, but precise, summary in Liberation Management (1992, p. 426-427).

The figure illustrates poor, below average, above average and winning zones. But how does one get from expensive intelligence which is slow to acquire and of poor quality to the opposite?
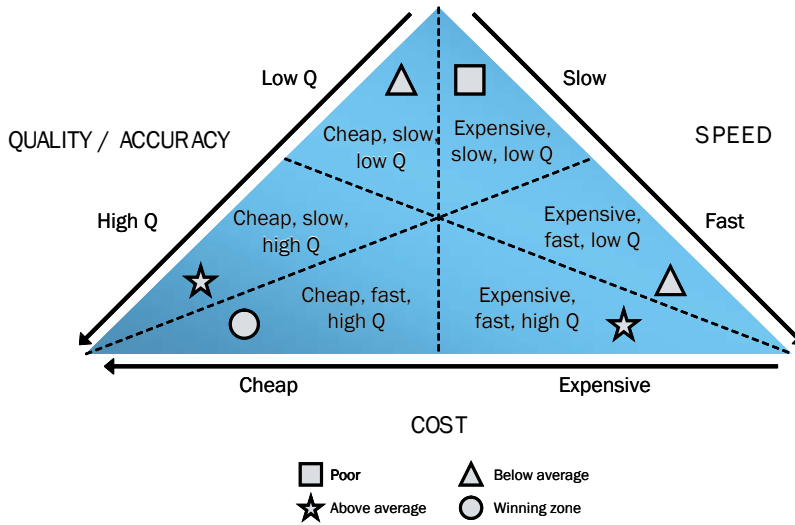

Figure 29: *The drivers of intelligence analysed*

The illustration presupposes a startlingly obvious fact and that is that some form of (costly) investment in intelligence already exists. This sounds somewhat paradoxical, but is actually quite true. The **opportunity cost** of absent intelligence is high and should be considered. The routes to improvement are depicted in Figure 30.
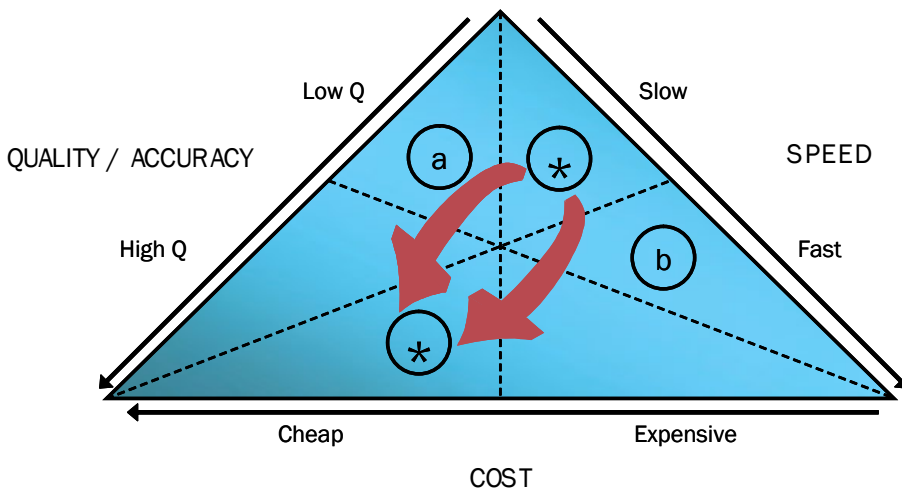
Figure 30: *The routes to improvement*

Either reduce the opportunity cost of intelligence and then improve the quality (a) or first improve the speed at which intelligence is gathered and then improve the quality (b).

Reduce the opportunity cost by refusing research that will be too late to influence decisions and penalising managers that withhold or fail to gather important information in time (i.e. quantify and manage the opportunity cost downwards). This usually leads to more cost–efficient, on-time and better-quality information.

Improve the speed of intelligence by teaching people intelligence-gathering techniques, maintaining a conceptual model with referenced information of business issues in real time and insisting that all situations are analysed timeously to the extent that this is possible (and analysis is nearly always possible in strategic situations). This usually leads to quicker analysis time, analysis "fitness" and reduced opportunity cost of information.

Don't necessarily start by improving quality. There is nothing wrong with quality research, but quality **merely** for the sake of quality is an academic approach. Quality for its **own** sake (in research) is exactly what it is, quality research which is always important, but for generic systems, such as addressed by the academic world. A system under **strategic stress** can often break, if quality is sought merely for its own sake. The trade-offs are important.

3.   THE ROLE OF INTELLIGENCE

The next important aspect in intelligence gathering is to understand the role that the process plays within every system. Intelligence does not exist for any other strategic reason **but to improve decision-making.** This presupposes the answer to an important strategic question: **what is the link between decision-making and intelligence (i.e. how do these processes hang together)?**

A better understanding of the question is achieved by first understanding the core aspects of the two processes separately, and then search for the link. The intelligence-gathering process has three basic elements as illustrated in Figure 31.
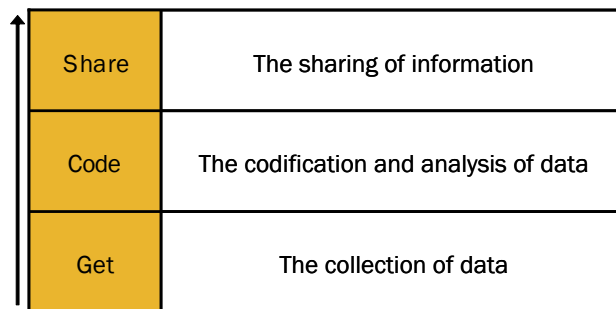
Share	The sharing of information
Code	The codification and analysis of data
Get	The collection of data

Figure 31: *Basic elements of the intelligence-gathering process*

The intelligence-gathering process consists of these three basic elements, which we call the *get*, *code*, *share* model:

- The **gathering** of data (*get*) requires the efficient and effective collection of data. This can invlove anything between a single focus group or a limited range of interviews, on the one hand, or a full-blown market study, feasibility study or portfolio analysis of businesses, on the other hand.

- The **codification** of data (*code*) requires the illustrative codification and analysis of data. The link to the next step is important here. The results of the analysis must be accessible to the final user or decision maker. This means that thick reports of a highly scientific nature cannot be the only output. These reports can be useful to the scientist or academic who needs to continue the research or build on it. It is of no use to the decision maker, if it cannot be understood or used. The codification and analysis therefore must lead to illustrative data – in the context of the business model.

- The **sharing** of information (*share*) requires the passing on of the intelligence to the decision maker in such a way that decision-making is enabled. This presupposes in-time, useful and understandable information at the place where it is required.

Hitt *et al.* describe the most effective strategists as:

> ... having the self-confidence necessary to select the best alternatives, allocate the required level of resources to them and effectively explain to interested parties why certain alternatives were selected. (Hill *et al.,* 2003, p. 29)

He therefore describes a model of "decide, resource and communicate". Ferrier picks the model up earlier by stating that:

> The upper echelons and strategic decision-making literature suggest that managerial cognition and experience influences three key managerial activities: problem-sensing facilitated by greater awareness; interpretation and enactment of environmental cues and signals; and a decision-making process that matches perceived problems with strategic solutions. (Ferrier in Bresser, 2000, p. 170)

This then is a model of "sense, process and decide". These two approaches provide us with a simple model depicted in Figure 32.
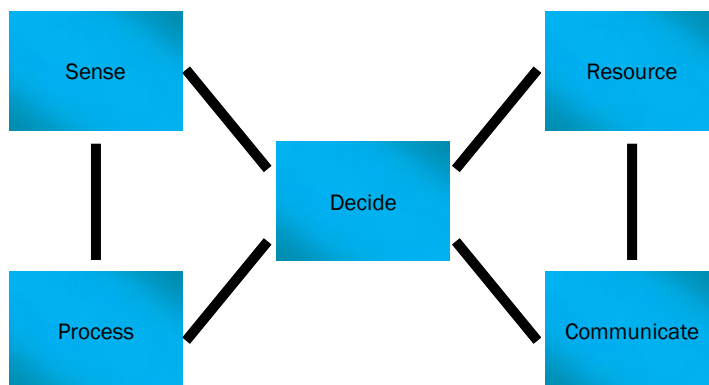

Figure 32: *A simple decision-making model*

The model has three distinguishable parts, i.e. sense and process (the discovery area), decide (the strategic action area), and resource and communicate (the implementation area). This simple model points to some grave mistakes in strategic thinking and intelligence gathering.

3.1 The decision-making model explored

Textbooks often refer to the importance of having a "strategic model" of the system or business in place. Gell-Mann (1995) talks about a "schema" or "partial schema" and it should be remembered that developing, maintaining, growing, renewing and rediscovering this "schema" is probably the most important of all strategic activities.

What the model teaches us is that the **interrelationships** and **three distinct areas** require a different perspective on intelligence and conceptual model maintenance.

The **interrelationships** relate to the nature of the activities in question. The area between sensing and processing requires (a) the application of illustrative analysis (i.e. some strategic decision-making context for the processing), between sensing and decision, (b) the commissioning of validatory research (i.e. some processing of what was sensed) and between processing and deciding, (c) the validation of what is "sensed" by the leadership or system (Figure 33).
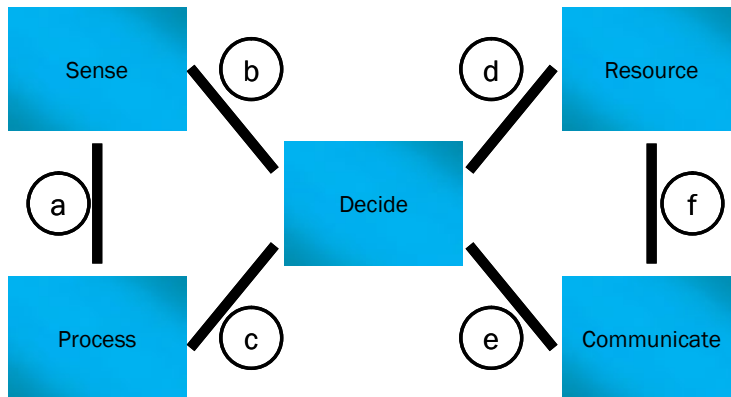

Figure 33: *The interrelationships of the decision-making model*

It also has a bearing on the common mistakes in intelligence relationships that are often made.

We often feel the urge to short-circuit the process by:

- Concentrating on sensing and processing only, i.e. building the "perfect research" with no regard for the fact that research must lead to decisions (in the strategic context) otherwise it is worthless;
- Concentrating on sensing and decision only, i.e. the typical picture of a leader that manages on "hunches" by the "seat of his/her pants" where no systemic processing of information takes place and mistakes are often made;
- Concentrating on processing and deciding only, i.e. where we've build such complex

and entrenched research systems that we ignore new information that doesn't fit the code and we therefore regard as useless, irrespective of its apparent urgency. (It took the American Navy many accidents and the loss of many men before they realised that the navy will lose more men and material through bad weather than battle. The system was set up to respond to "battle strategic information" and "weather strategic information" was regarded as second tier although the mariners themselves sensed that this was incorrect).

The same is obviously true for the other side of the equation. The decide–resource link (d) requires communication, the decide–communicate link (e) requires substance (which resources will be deployed) and the resource–communicate link (f) requires substance or context (on what decisions are the resource decisions based). Also here the urge to short-circuit the process exists:

- Concentrating on decisions and resourcing, we often forget to communicate, thereby keeping the system or business in the dark, making it difficult to deploy the resources effectively;
- Concentrating on decisions and communication, we fail to provide the system with the necessary resources to execute the decision, thereby making it impossible for the plan to work; and
- Concentrating on resourcing and communication, we fail to provide the context of the resources, thereby allowing these resources to be misused and wasted.

The **three distinct areas** of the model relate to three different requirements for intelligence, or different types of conceptual models, for the business (Figure 34).

	Sense ⎯⎯⎯ Process	Decide	Resource ⎯⎯⎯ Communicate
Type of conceptual model	Exploratory	Strategic	Tactical and operational
People involved	Scenario builders, strategic researchers	Strategic caucus	Functional fields (Finance, HR, Operations, Sales)

Figure 34: *Three distinct areas of intelligence*

The intelligence and conceptual model in the first part is **exploratory**, in the second part **strategic** and in the third part **tactical and operational.** Many case studies have been observed where a critical error occurs here. Operationally modelled intelligence is not sufficient for strategic decision-making or exploration, and vice versa. This is because:

- Exploratory models define the (external) playing field of the business, the underlying economics (supply and demand), the value chain, etc. Knowledge of your own business'

financials, output or staff turnover is of little value here. The output of exploratory models is strategic constructs that will be used to determine positioning

- Strategic models define the competitive position of the business in terms of these strategic constructs and include portfolio analysis, supply chain analysis, etc. Once again knowledge of your own performance is of little use. The output of these models are decisions on operational drivers for success
- Tactical and operational models define progress with operational drivers such as financials, financial ratios, production output and throughput, staff turnover, etc.

Many businesses will enter a strategic thinking session with only operational intelligence. That is as good as saying your body will survive a walk to the south pole merely because you are fit. More questions need to be answered such as: What is typically required for a walk to the south pole? What will the weather do? What does the terrain look like? These questions sound so obvious, but in business terms they are often not answered.

A final thought on this matter is the question of who should be involved with what? This is a less important question to answer that the fact that this work should involve three disparate cycles of thought. In a small business it could be the same person, in a very large business exploratory work could be done by a scenario committee or even a range of them, strategic work by an extended top management team, and tactical and operational work through the business planning process of the functional teams. The important aspect is however that the thought processes should remain separate.

4. THE IMPORTANCE OF DECISIONS

Decision-making is at the heart of our model. Is there a reason for this? This is another aspect learnt from numerous case studies that seems obvious, but is not necessarily experienced as such. Decision-making is at the core of business, management and strategic thinking. Without **making** a decision, inertia sets in – the death knell for strategic management. The core output of top management work is decisions. So which manager is better in a given situation? One that makes 90 correct and 10 incorrect decisions or one that makes 19 correct and 1 incorrect decision? If learning follows both cases, the first scenario **must** be the better one. Not only will the leader have 80 more decisions as output, but 71 more **sound** decisions to take the business forward. And not only will that, probably, be enough to counter the extra 9 wrong decisions, the leader will learn from the experience and improve the ratio of correct to incorrect over time.

The analysis and conceptual model, therefore, must always facilitate decision-making at the right time and place.

5. THE LOGISTICS OF INTELLIGENCE

The time and place issue leads to a discussion of logistics. Logistics could be defined as the time and place differential of any commodity's value. This means that a commodity often has no economic value at the time and place of the commodity's production. (This obviously includes intermediate production in all its phases up to the point of consumption). If the commodity could be moved to the point of future consumption and kept there (or vice versa, or stored at both ends, or stored at another place) the value of the commodity will increase up to the

point of final consumption – when the relative value is at its highest. A lot of the value of the commodity could be tied up in the logistics, i.e. thermal coal, produced in South Africa, might cost R50 to produce, but more than R200 to get to the designated furnace in Europe. Coal that doesn't make it there, or is lost along the way, or as in some cases spontaneously combusts in stockpiles in the harbour will not only be worthless, but could easily have a **negative** value.

This means that all views on intelligence must include the logistics behind the intelligence as well. How will I make sure that the consumer of intelligence has the information ready exactly at the time when it is needed?

The field of knowledge management has emerged to fill this vacuum lately, and a large body of studies that support the identifying, codification, protection and application of business' knowledge assets (which are both tangible and intangible) has appeared. Many IT departments, which in the eighties and nineties were quite destructive in business, began to understand their role as the custodian of this knowledge flow on all levels. The **flow** as such, depicted in Figure 35, used to be seen as three disjointed events and managed as such. The trend recently has been to manage these events and applications as a seamless process, based on the same data warehouse.
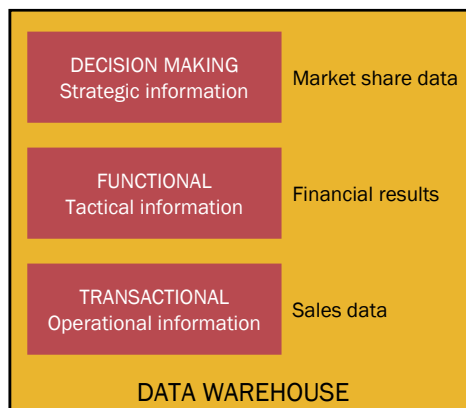

Figure 35: *Hierarchical, but integrated intelligence*

If this is a seamless model, which elements of the model are important to the strategist? To answer this question we can once again return to the IME model (Figure 4).

6.   TYPICAL STRATEGIC INFORMATION

The field of strategic analysis is richly endowed with all sorts of tools, some of these quite brilliant.

We once again point you to two principles, i.e.:

- Establish a holistic picture of all three areas (IME); and

- Integrate this picture into the overall conceptual model of the business and update frequently, if not periodically.

In order to achieve this objective we briefly discuss four typical examples of models to obtain strategic intelligence.

6.1 External – Social Monitor/Triple Bottom Line

(This paragraph is based on the publication "JSE SRI Index: Background and Selection Criteria", 2003.)

The King Report on Corporate Governance for South Africa 2002 (King II) (available from the Institute of Directors in Southern Africa) urges companies to embrace the triple bottom line as a method of doing business. At the same time, any attempt to develop triple bottom line practices needs to be balanced with the need for companies to make a return for their shareholders.

The JSE Securities Exchange of South Africa developed a set of criteria to measure the triple bottom line performance of companies in the FTSE/JSE All Share Index. These criteria will form the basis of the Socially Responsible Investment ("SRI") Index (participation in which is voluntary at the moment).

The criteria take into account that this is still an emerging business practice and the focus is to encourage companies to implement and report on their triple bottom line strategies and activities. It is expected that the criteria will evolve over time as the ability to measure these activities evolves.

The SRI is structured along the three pillars of the triple bottom line - environment, society and economy - each of which must be addressed if the company is truly to be said to have integrated sustainability into its business practices.

- **Pillar 1 - Environmental sustainability:** Africa's rich resource base has to be used wisely if it is to provide sustainable support for the development of Southern Africa and its people. All companies have an impact on environmental resources; they therefore need to develop strategies to measure and monitor their impacts and implement systems that ensure that these resources are used in a sustainable manner;

- **Pillar 2 – Economic sustainability:** Economic sustainability refers to balancing short-term financial performance with long-term growth and sustainability; and

- **Pillar 3 – Social sustainability:** Companies need to establish a culture of non-discrimination, inclusivity and fairness in all aspects of business. This includes promoting the social upliftment, development and poverty reduction of its staff and the communities in which it operates.

The fundamental corporate governance principles of fairness, accountability, responsibility and transparency are common to all three the pillars - corporate governance is therefore the foundation in which each pillar of the triple bottom line is embedded. Consequently it is dealt with separately in the SRI. The key challenge is to achieve a balance between financial performance and compliance with the triple bottom line, while taking account of stakeholder expectations.

The criteria measure the following business practices:

- **Policy and strategy:** Policies and strategy must define the company's specific challenges in each of the pillars, determine its current impact and commit to the implementation of reasonable progress targets for long-term sustainability.

- **Management systems and performance**: The performance management system of the company must reflect the triple bottom line targets to ensure that progress is monitored and measured.

- **Reporting:** The company should report regularly, accurately and timeously on its strategies, targets and performance in relation to these targets.

6.2 Market – Porter and customers

6.2.1 *Porter's 5 forces*

The external analysis – understanding industry forces, demand, supply and market creation – can be based on an analysis similar to Porter's five forces framework. This framework views the attractiveness of an industry as determined by five sources of competitive pressure. These five forces of competition include three sources of horizontal competition: competition from substitutes, entrants and from established rivals. The two sources of vertical competition consist of the bargaining power of suppliers and the bargaining power of buyers.

The strength of each of these competitive forces is determined by a number of key structural variables, some of which are depicted in Figure 36.
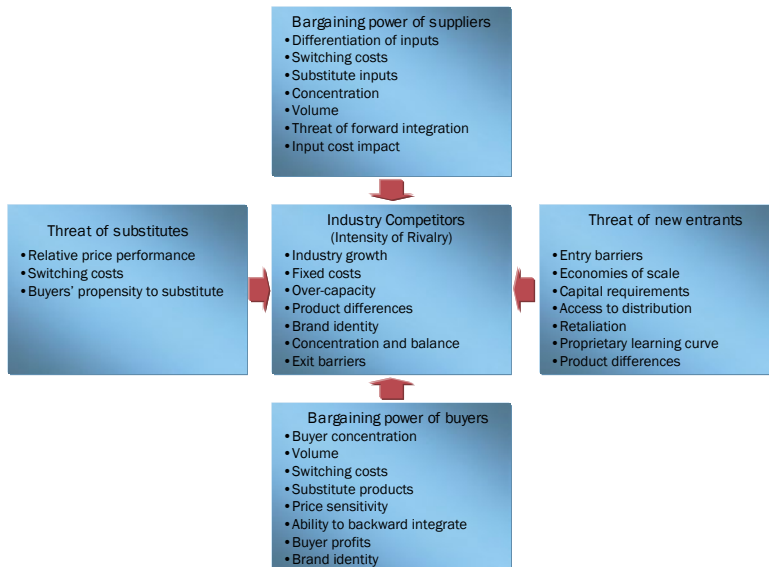

Figure 36: *Porter's five forces (Mintzberg, Ahlstrand & Lampel, 1998)*

Porter's work is discussed in nearly every strategy study available and we will therefore not go into detail here. There are many proponents and opponents of Porter's approach to industry analysis and resultant strategies. We contend that it is a good basic framework to enable understanding of your environment and how this impacts on your competitive position. This is, however, still only a part of the first step of the strategic process.

6.2.2 *Dynamic customer satisfaction measurement*

The customer survey should always be conducted with the end result in mind. Continuous tracking of customer satisfaction is critical to enable an organisation to:

- **Integrate** the voice of the customer into the business's decision-making processes by aligning strategies with current and future customer requirements:
  - This includes the development a technical and commercial support strategy to optimise the use of the company's products and/or services in the customer's processes; and
  - The development of a communication strategy to address incorrect perceptions and reinforce positive perceptions;

- **Innovate**: A large portion of successful new products and services are the direct result of speaking with customers;

- Provide **advance warning**: Customer data can be used as part of a measurement system to warn the organisation of upcoming trends, performance issues or opportunities;

- Obtain **external performance feedback**: Often customers can spotlight processes which are working well and others which are not. By actively contacting and speaking with customers, organisations can spot important opportunities for improvement;

- Increase **customer retention**: Learning what is most important to customers and how the organisation is seen as performing relative to competitors can help to prioritise change efforts;

- Develop **training** material, not only for the marketing force, but the broader business community relating with and impacting on the customer;

- Develop **performance measures** to ensure that customer satisfaction is a priority.

(adapted from Toolpack Consulting)

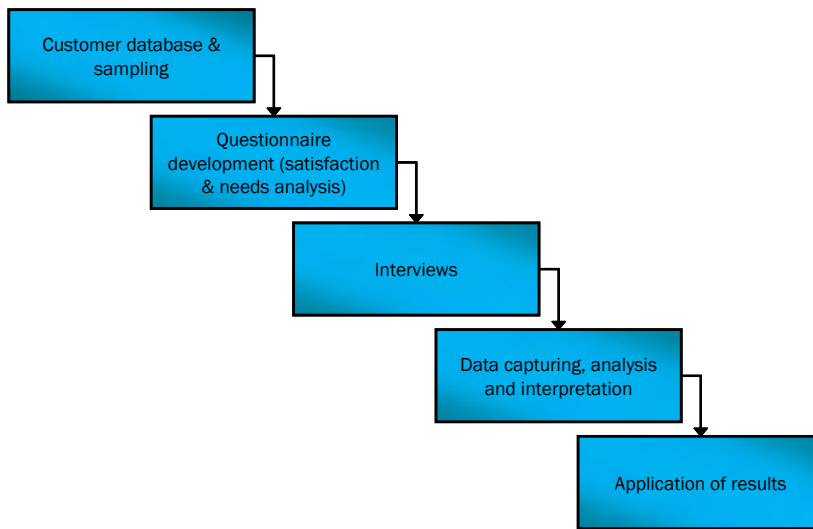The main steps in the process are depicted and described in Figure 37.

Figure 37: *Steps in a customer satisfaction survey*

- Customer database and sampling:
  - o The first step is to have access to a segmented database of all the company's customers with accurate contact details and their history of doing business with the company. This is normally the most difficult part of the process. Despite all the buzz regarding customer relationship marketing, very few businesses, including some of the largest companies operating in specific industries in South Africa, have a customer list readily available. Without accurate data regarding segmentation and without access to decision makers within the various functions (e.g. top management, production, distribution) of the customer's structure, the survey is doomed from the start. Once the database has been obtained (or developed), a representative sample of customers must be obtained. This is normally done per customer segment, per income category, per function and, where relevant, per geographical region based on stratified random sampling.[8]

- Questionnaire development (satisfaction and needs analysis):
  - o Both hard and soft elements must be covered in a customer satisfaction survey. These include the range, quality and reliability of the service or product provided, price, relationship, business support and value added.

  - o The ideal approach to developing the questionnaire is to make use of focus groups. Focus groups are in-depth, qualitative discussions with a small number of carefully selected people. Unlike the one-way flow of information in a one-on-one discussion, focus groups generate data through the give and take of group discussion. Listening as people share and compare their different points of view provides a wealth of information - not just about what they think, but why they think the way they do. These points of view are more likely to be revealed via the social setting created through a focus group and the interaction which being

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[8] Stratified random sampling is discussed in many elementary and advanced statistics handbooks, such as Bouwer and Schuman (1991, p. 20).

in a focus group entails. Among the advantages of focus groups are the wide range of information that can be gathered in a relatively short time span and the moderator being able to explore related but unanticipated topics as they arise in the discussion. These discussions will facilitate the identification of relevant performance parameters relating to the company's relationship with its customers. The focus group attendees should once again be representative of the broader customer base to ensure that all relevant issues are unearthed. These performance parameters will be quantified (based on feedback received during the focus group) and translated into a questionnaire, together with additional information that could be required by the company (bearing in mind that the questionnaire should not be too long) (adapted from the American Statistical Organisation).

o   In many instances, unfortunately, the timing and cost involved in focus groups are prohibitive for many companies. In such cases work sessions and interviews with the marketing function and some industry players will provide key input. There are also ample examples of customer surveys available which can be used as a basis. It is, however, important to ensure that relevant dimensions, both from the company's and customer's point of view, are addressed.

o   Although very valuable in some instances, open-ended questions should be limited as they hamper interpretation, comparison and reliability of the study.

o   Once the questionnaire is developed, to conduct a few pilot interviews with neutral parties (who have not been involved with the development) to validate the comprehensibility, length and results of the interview and adapt as required.

o   The questionnaire design will also be influenced by the type of interview – face-to-face, telephonic or electronic.

- Interviews:
  o   On a practical level, sufficient time must be allowed, both for the study and for the scheduling of the interviews. It is not always possible to reach all the targeted customers over a short period of time. In addition, you would need some lead time to get access to the decision makers within the customer's organisation. This might seem obvious, but the results of many a study have been worthless because the wrong people were interviewed due to pressure to finalise the study's outcome.

  o   During the interviews, customers are shown a list of the product/service dimensions that are being measured. Opportunity should be given to add product/service dimensions which the customer perceives as important that are not on the list. Customers are asked to rank the dimensions in order of importance. Customers are then asked to rank the company's performance on these service dimensions relative to the company's major competitors.

- Data capturing, analysis and interpretation:
  o   Data should be captured in a user-friendly format. Care must be taken to ensure future use and comparability.

o   The comparison with competitors enables us to analyse and depict graphically the company's service relative to those of competitors. This is referred to as a customer value map[9]. It is a four-quadrant graph that plots perceived price performance versus perceived service performance relative to competitors, depicted in Figure 38.
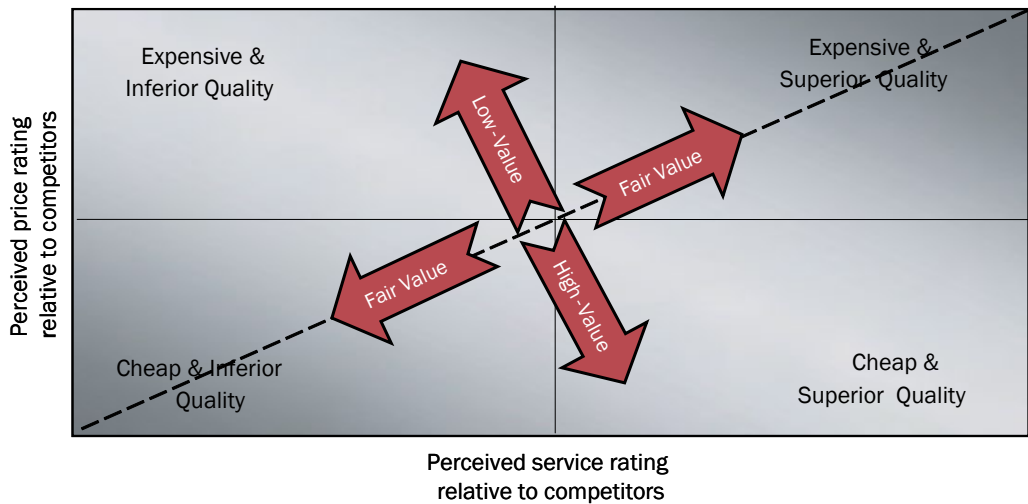

Figure 38: *The customer value map*

The results display whether the value a company offers to its customers is high or low compared to those of competitors. A bubble is used to represent the various segments; the size of the bubble represents the size of that segment (in volume or value).

•   Application of results (as discussed at the beginning of the paragraph).

6.3 Internal – Revenue Enhancement Diagnostic

The revenue enhancement survey considers the underlying way in which the company exploits market opportunities to achieve profitable, sustainable revenue growth. The survey encompasses the key activities of the marketing and sales functions (identification, creation and retention of customers), as well as the business system that supports these functions (strategy and planning, production, marketing, sales/channel management and customer service).

The survey takes the form of a written questionnaire completed by all key employees in the marketing management process. The survey focuses on the aspects depicted in Figure 39.

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[9] Bradley Gale (1994) developed this useful concept which he calls "a plot of the prices and overall performance scores of competing offerings". The map contains reference lines for assessing customer-perceived fair value and the *frontier prices* that represent the best *relative values* available to the buyers in the category (1994). His work, together with certain enhancements by Stephanus Loubser (associate director at the University of Stellenbosch business school), is used as a basis for this section.
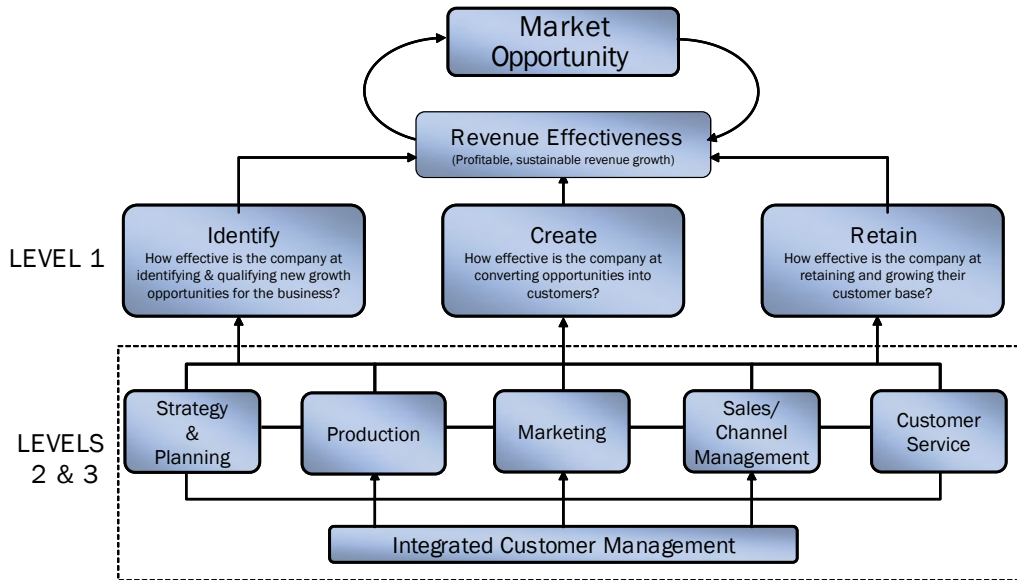
Figure 39: *The revenue enhancement survey (Source: Andersen, 2000)*

Identify measures the company's understanding of its industry and customers, the effectiveness of its market segmentation and organisational structure to support these customers, and the effectiveness of identifying new market niches, new customers or new opportunities.

Create is about the ability to understand new customers' needs, to market to them, to convert them into actual customers and to reach them geographically. It is also about the ability to develop new products to serve market needs.

Retain is about retaining current customers, increasing sales as well as cross-selling, and about customers referring business to you.

Strategic planning is about the bigger picture – who do you serve now and who will you serve in future, why will this be successful and how will we tell and guide everyone who needs to know?

Product / service development is about the effectiveness of enhancing and/or developing products to enable you to serve the market profitably, now and in the future.

Marketing is about choosing customers, knowing what they want and delivering it better than others can, now and in the future.

Channel management is about getting the right product to the right customer at the right time in the right condition, now and in the future.

Customer service is about hearing what your customers say and doing something about it to ensure a long-term profitable relationship for both parties.

Integrated customer management is about the ability to draw all these aspects together in a seamless interface for the customer, and about the ability to mine customer information internally to optimise effort, relationships and opportunities.

Throughout, integration and communication with the rest of the business is measured.

7.   SUMMARY

The importance of intelligence is undisputed, but the trade-off between quality, speed and cost of information is seldom investigated. The process of getting, coding and sharing information in an exploratory, decision-making and tactical/operational context means that different **types** of models must be developed by **different cycles (types)** of work. The only use of intelligence is to enhance decision-making, which means it should be available at the critical decision-making point. Strategic information must be available on all three levels of the IME model (Figure 4).

Final take-out

IMPORTANCE OF INTELLIGENCE – Mistakes can be prevented with some basic intelligence being shared with the relevant parties.

THE DRIVERS OF INTELLIGENCE – Trade-offs must be made between speed, quality and cost. Due to the inherent opportunity cost in a lack of intelligence, either reduce the opportunity cost of intelligence and then improve the quality, or first improve the speed at which intelligence is gathered and then improve the quality.

THE ROLE OF INTELLIGENCE – Exploratory (not operational) intelligence is critical to inform strategic decision-making.

THE IMPORTANCE OF DECISIONS – The right intelligence must be available at the right time in the right format to facilitate decision-making. Intelligence that doesn't assist decision-making is worthless.

THE LOGISTICS OF INTELLIGENCE – Technology is facilitating the process of bringing intelligence to the user in a user-friendly format.

TYPICAL STRATEGIC INFORMATION – Intelligence must be holistic (addressing the internal, market and external environments) and it must be integrated into the overall conceptual model of the business.

SUMMARY – Knowledge is power – always.

CHAPTER 7

FIRST STEPS OF THE PROCESS

Establishing issues, KSFs and the SWOT

Critical issues for this chapter

SYSTEMISED THINKING – How do I start the strategic thinking process?

WHAT BOTHERS YOU? – How do I formulate key strategic issues?

WHAT IS THE IDEAL SITUATION? – How do I define the ideal situation?

OPPORTUNITIES AND THREATS – How do I consider external influences on my situation?

WHAT DOES OUR TOOLKIT LOOK LIKE? – What is the real difference between opportunities and threats, and the toolkit?

TO SWOT OR NOT TO SWOT – Is a SWOT analysis worthwhile?

SUMMARY - How do we pull these thoughts together?

1. SYSTEMISED THINKING

Once we gained an understanding of consultative thinking, developed clear objectives, understood the strategic agenda outline and the effect of the new science on this agenda, we started preparations for a group strategic event. We've developed a process, with specific objectives for each part of the process, and gathered all the intelligence which we effectively could. In Chapter 7 we consider the bulk of the thought streams that will prepare us for the strategic decision. These can be briefly summarised as:

- What is bothering me? (What is keeping the general awake at night?)
- What is the ideal situation that I would like to achieve? (What is the perfect position to be in before I go to war?)
- Which opportunities can I utilise in my campaign and what conditions will hamper the campaign? (For an army this could be alliances, local geographical factors, weather, etc.)
- Which tools do I have available (or not) to execute any given strategy? (In an army these could be weaponry, support systems, etc.)

It is important, once again, to refer to Figure 4 and summarise these points in that fashion, i.e. each question must be answered for the system's internal, market and external facet. The first important question has to do with listing the key issues.

2. WHAT BOTHERS YOU?

A good place to start the process is to make a list of strategic issues. There will always be internal, market and external issues. This means that all the systemic elements need to be

described. To say that somebody is ill is not good enough. It could be that certain organs are affected, a virus is present, there is poison in the system, etc. (internal). This could be because the person is malnourished, was attacked by someone, or exposed to other people with infectious diseases (market) and this could have happened because the person is not well liked, is constantly trespassing, is involved in illegal activities or is part of a high-risk group as far as infectious diseases go (external). As mentioned previously, we make use of four case studies to illustrate the strategic process. These are described in detail in Chapter 16. In each of the paragraphs we will use a specific case study as example. We refer the reader to the complete case studies in Chapter 16 to see how each example fits into the total strategic process for that specific case study, and also invite the reader to view the results for the other case studies.

The question posed to the participants of the strategic session is simply to describe the key strategic issues facing the company – in the internal, market and external environment. For the utility, these are described as an example in the box "Example: Key strategic issues facing the utility".

Example: Key strategic issues facing the utility

The **key strategic issue** facing the utility in its **external environment** was articulated as **deconstruction challenges**. As in many developing economies, unbundling and privatisation are high on the government's agenda, with the accompanying uncertainties experienced by investors, customers and employees alike. This would require an independent financial opinion of the utility, which could be affected by foreign exchange fluctuations. There is also an endeavour to interconnect the country's electricity grid with that of neighbouring countries to broaden the utility's market and to secure supply. The commercial impact of this endeavour, and the effect of government interventions from the various countries, however, were still unclear at the time of the strategic session.

The **key strategic issue** facing the utility in its **market environment** was articulated as a **market disconnect**. Given the monopolistic history of the utility, customer relationships were not a priority on the strategic agenda. The poor socio-economic conditions in the country led to challenges in revenue collection, compounded by theft. The population is also geographically dispersed in small communities, making it very difficult for the utility to reach the broader market cost-effectively.

The **key strategic issue** facing the utility in its **internal environment** was articulated as **challenged resources**. On the supply side, the utility has long-term contracts with independent power producers (IPPs) which impact on its ability to optimise supply. In addition, the utility's dependence on hydro-power is challenged during the dry season. Limited financial resources impact on the ability to invest sufficiently in infrastructure. There seems to be a lack of teamwork amongst its employees, compounded by unintegrated IT systems.

For ease of presentation, we normally summarise these key strategic issues in the format depicted in Figure 40.

The key take-out issue focuses our attention and enables the audience to digest the detail more easily for application to the strategic choice that follows later.

In our experience this is the best place to start. People feel more at ease and are more prepared to contribute to the rest of the process if they have the opportunity to share what is bothering them about the business.

Once the strategic issues have been highlighted, the ideal situation can be described.
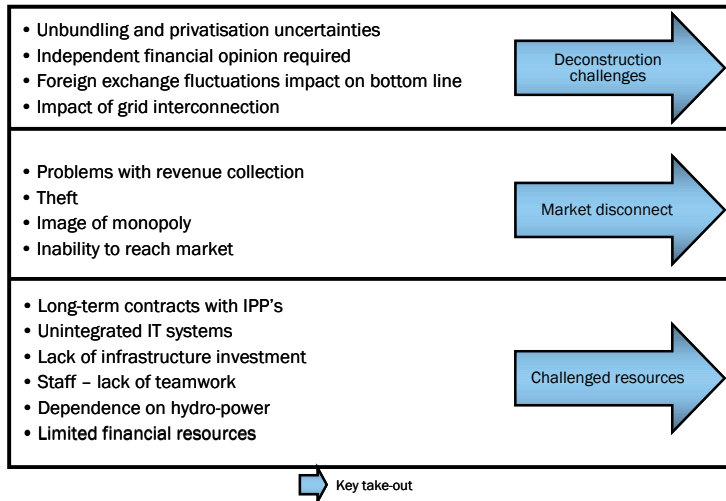

• Unbundling and privatisation uncertainties
• Independent financial opinion required
• Foreign exchange fluctuations impact on bottom line
• Impact of grid interconnection

Deconstruction challenges

• Problems with revenue collection
• Theft
• Image of monopoly
• Inability to reach market

Market disconnect

• Long-term contracts with IPP's
• Unintegrated IT systems
• Lack of infrastructure investment
• Staff – lack of teamwork
• Dependence on hydro-power
• Limited financial resources

Challenged resources

Key take-out

Figure 40: *Key strategic issues facing the utility*

3.   WHAT IS THE IDEAL SITUATION?

In management theory the ideal situation is often described by "key success factors" - a description of the key factors required for the business to be successful. In our example of the body at the beginning of the previous section, key success factors are a healthy body, fit and clean (internal), that is fed with healthy wholesome food at the right time intervals, kept safe, clean and protected from inclement whether (market), and which belongs to a person who is respected, liked, accepted in the community and would therefore have future support for survival (external).

Koch describes these factors as follows:

> The reason why some firms are more successful than others in particular products or industries. Should be based on an in-depth understanding of why consumers buy the products concerned as a spur to resegmentation and/or innovation. (Koch, 2000, p.234)

Grunert and Ellegaard (1993) define a key success factor as a skill or a resource that a business can invest in that, in the market the business is operating in, explains a major part of the observable differences in perceived value and/or relative costs.

They go further to say that key success factors differ from core skills and resources, which are prerequisites for being in a market, but do not explain differences in value created and costs incurred. In addition, key success factors differ in their changeability, i.e. in the degree to which competitors can emulate them.

We support these views, but emphasise that key success factors should always be defined in the extended sense of what will differentiate my company from others in the **internal, market and external environments**.

The task presented to the participants in the strategic session is simply for them to describe the key success factors that will differentiate a company operating in that industry – in the internal, market and external environment. The box "Key success factors for a food production company" gives an example.

Example: Key success factors for a food production company

The **key external success factor** for a company operating in the processed foods industry was articulated as the ability to **create value in a sustainable way**. This not only means value for shareholders, but also proactive, sound corporate governance and a good corporate image. This will facilitate strategic partnerships on a global scale, which will give the company access to more established brands and markets and technical expertise, and will also enable it to expand its position in the value chain.

The **key market success factor** for a company operating in the processed foods industry was articulated as **discerning brand leverage**. This translates into strong brands in each of its target market segments facilitated by effective market segmentation and a diverse product offering. This, in turn, will enable the company to continually grow organically.

The **key internal success factor** for a company operating in the processed foods industry was articulated as **resource control and exploitation**. Strategic sourcing and quality assets are key to enable efficient production. A balanced product portfolio is facilitated by an effective product development strategy. In addition, effective distribution and good IT systems are critical. Lastly, strategic leadership and a high-performance culture (skills, performance and assets) facilitate an optimal internal process.

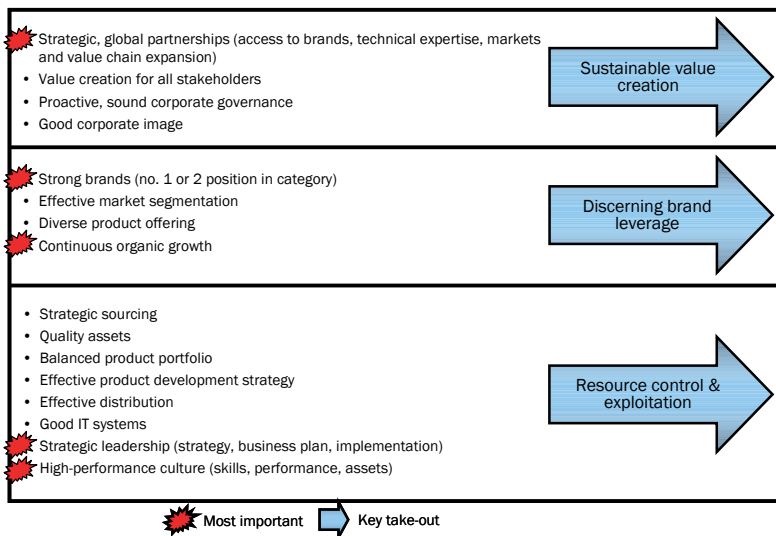For ease of presentation, we once again summarise this in the following format:

Figure 41: *Key success factors in the processed foods industry*

Asking participants to identify the most important issues for them, and summarising the list in a key take-out issue, focus our attention and enable the audience to digest the detail more easily for application to the strategic choice that follows later.

In addition, we ask the participants to rate the performance of their company against its major competitor on these key success factors. This provides a clear indication of those areas in which the company is lagging behind its competitors. The rating scale is from 1 to 5, where 1 equals poor and 5 equals excellent. Experience has shown us that, provided the right composition of people is present at the strategic session, this rating is as valid as a rating based on extensive and costly research.

The results for the processed food company are depicted in Figure 42. Especially in the market environment, the food company is clearly lagging behind its major competitor. Internally, the product development strategy and, externally, the company's image need critical attention.
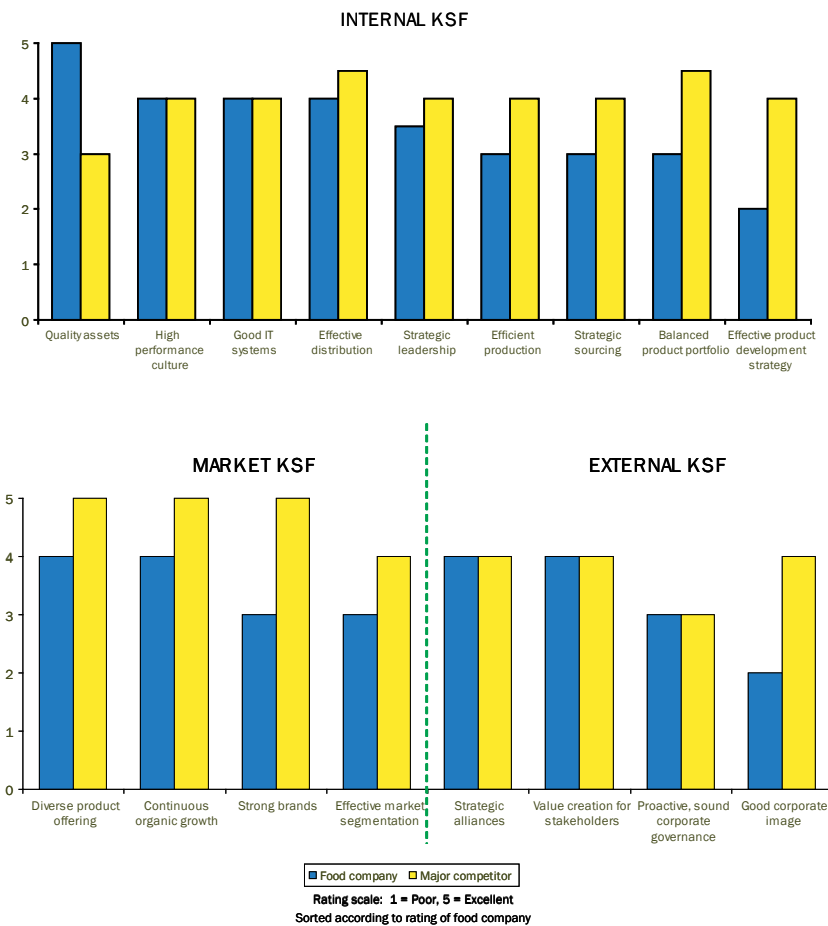
Figure 42: *Key success factor rating for the processed foods company*

4.   OPPORTUNITIES AND THREATS

Wilson, Gilligan and Pearson (1992) define opportunities and threats as those outside factors that can affect the future of the business and over which it has no control:

- Opportunities are observed or possible trends in the environment which are attractive to the firm, while
- Threats are observed or possible trends in the environment that could be detrimental to the firm.

For interpretation a matrix can be used, which offers a simple but powerful way of classifying and managing these threats and opportunities (Figure 43).
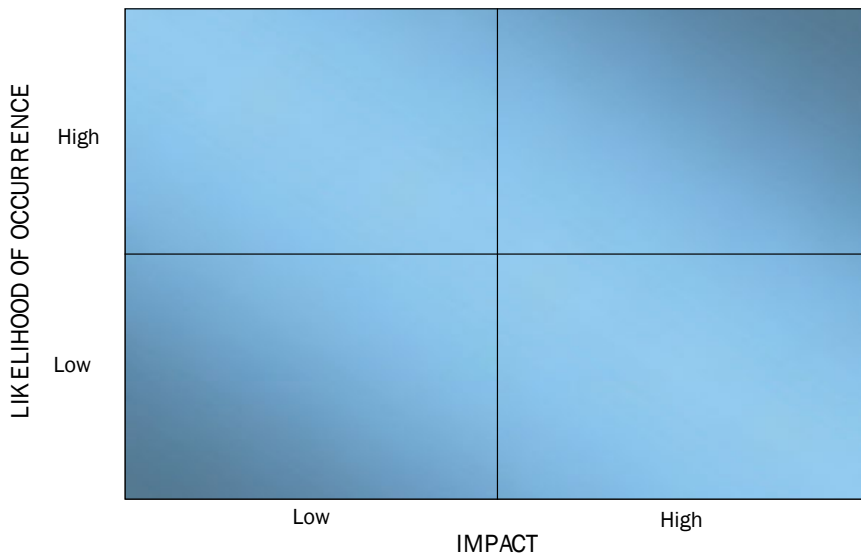
Figure 43: *Opportunity / threat matrix*

- Interpreting opportunities:
  - Attractive, probable opportunities should be managed and exploited;
  - Less attractive, less likely ones ignored; and
  - High-low opportunities should be monitored for shifts in position.
- Interpreting threats:
  - A serious treat is one that, if it materialised, could seriously hurt the company. If in addition it were likely to occur, it would have to be managed constantly and contingency plans would probably have to be developed;
  - A threat with low likelihood, which is not a very serious threat, could even be ignored; and
  - High-low threats should be monitored for shifts in position.

The task presented to the participants in the strategic session is simply to describe the key opportunities and threats in the industry (in most cases facing all the companies operating in that industry) – in the internal, market and external environment. For a municipality, examples are given in the box "Example: Opportunities and threats facing the Municipality".

Example: Opportunities and threats facing the Municipality

In the **external environment** the **key opportunity** is to create a **development hub** in the municipal area. The municipal area could become a gateway to the broader region. There are considerable opportunities for the development of economic clusters due to the diversity of the region. The activities should take place within an environmental envelope. Partnerships and joint ventures could enable the participation of the broader community in the economy. These ideals are, however, **threatened** by **misalignment**. The business community is divided on future growth strategies and it is a challenge to align the ideals of the various spheres of government. Increased industrial activity and population growth could impact on environmental control.

In the **market environment** the **key opportunities** are articulated as **upstream integration and downstream beneficiation**. Opportunities exist to collaborate in terms of upstream sourcing activities in major industries and to develop secondary local industries downstream from the major industries. The area can also increase its focus on the development of regional markets. This is, however, **threatened** by potential **external interests** entering the economy that are not aligned with the municipality's growth strategy. In addition, the distance to major markets could impact negatively on the municipality's ideals.

In the **internal environment** the **key opportunity** is the **optimised use of resources**. The area has a good natural resource base which could be exploited by the optimised use of infrastructure and the development of new infrastructure in a low interest rate environment. There are also significant opportunities to optimise water catchment management in the area. This is **threatened** by a potential **socio-economic breakdown**. There is widespread illiteracy and HIV/Aids prevalence amidst high population growth. The community is not yet equipped with the required change toolkit to manage heterogeneous emotional and political agendas. There is also uncertainty about access to water for industry and access to capital for development.

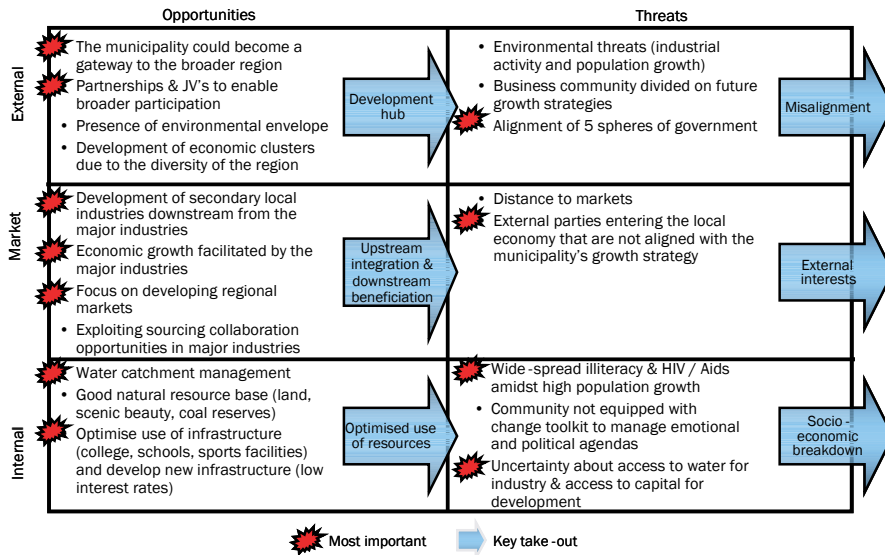For ease of presentation, we once again summarise this in the format depicted in Figure 44:

Figure 44: *Opportunities and threats facing the municipality*

Asking participants to identify the most important opportunities and threats, and summarising the list in a key take-out issue, focus our attention and enable the audience to digest the detail more easily for application to the strategic choice that follows later.

5. WHAT DOES OUR TOOLKIT LOOK LIKE?

Strengths are positive aspects internal to the company: the advantages the company has, what you do well, unique resources you have, and also what other people regard as your strengths.

Weaknesses are negative aspects internal to the company: areas that the company could improve, in which the company does badly, or does not have in relation to competitors.

Be specific:

> Make absolutely sure you gather precise strengths and weaknesses. A strength like 'We have good processes' tells you nothing, while a more specific version 'Our counter processes mean that we can provide faster, cheaper, more satisfying experiences for our customers' is a lot more useful. (Lake, 2002, p. 120)

Both strengths and weaknesses must be analysed in relation to competitors. For example, if all your competitors have excellent distribution systems, then an excellent distribution system is not a strength in the market, but it is a necessity.

The task presented to the participants in the strategic session is simply to describe the strengths and weaknesses in their business – in the internal, market and external environment. Refer to the box "Example: Strengths and weaknesses for a paper products manufacturer".

Example: Strengths and weaknesses for a paper products manufacturer

In the **external environment** the company's **key strength** is an established **brand** for the broader product range. It has the ability to create jobs and its social responsibility initiatives are on track. The **weaknesses** are the current cost of environmental management and the strength of its **competitor's brand** in the final consumer market.

In the **market environment** the company's **key strength** is its established **key account management** capability. It dominates niche markets through adding value to present products. This is supported by a good sales and marketing department. This is, however, **weakened** by an **expensive product** compared to that of competitors. The product is not clearly differentiated in the relevant market segments and is not easily transferable to other market segments. The company could also do more to leverage its knowledge of its customers' conversion processes.

In the **internal environment** the **key strength** is the vast **industry experience** of its key personnel. It has access to technology and raw materials, and is situated close to its major markets. The current premises also has sufficient space to support expansion. The **key weakness,** however, is that the company is **set in its ways**. This is exacerbated by old technology, causing quality problems. The employee turnover is also too low, resulting in lack of new ideas and skills entering the business.

For ease of presentation, we once again summarise this in the format depicted in Figure 45:
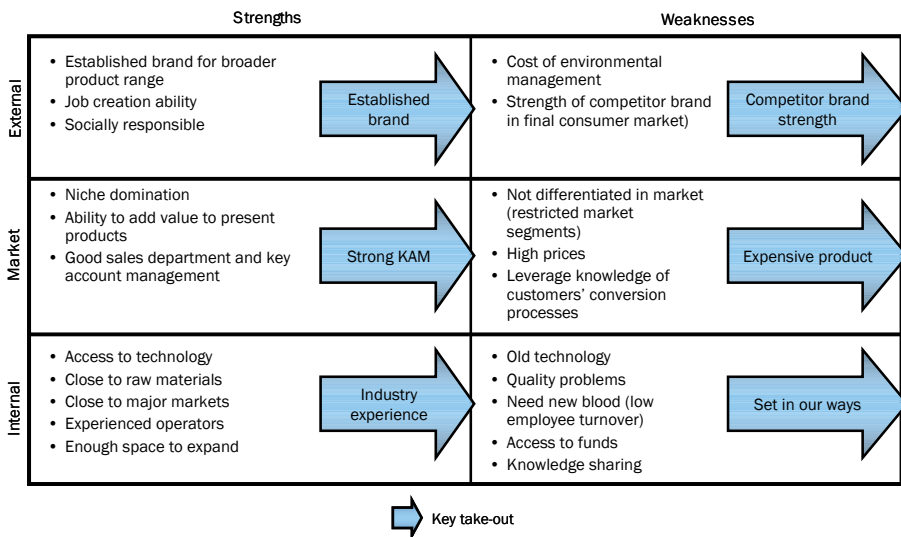
Figure 45: *Strengths and weaknesses facing the paper products manufacturer*

Summarising the list in a key take-out issue focuses our attention and enables the audience to digest the detail more easily for application to the strategic choice that follows later.

6.   TO SWOT OR NOT TO SWOT?

Tony Manning writes:

> Beware SWOT. If ever there was a 'hardy annual' it's the SWOT analysis. Managers seem to think that it's mandatory, so year after year they slog through the same chore with the same result – approximately zilch. If a workshop is properly thought-out, debate will naturally cover your firm's internal strengths and weaknesses and the opportunities and threats it faces outside." (Manning, 2004, p. 63)

If the SWOT is seen the way Manning writes about it, we couldn't agree more. All strategic "rituals" tend to achieve the opposite result. Rituals do exactly what we warn about in the first chapter – they dull the mind, blunt creativity and allow us to act without thinking – strategy's one big enemy. But the SWOT can be a powerful tool, if used within a framework as set out in the previous paragraphs and if it is applied as we will illustrate in the next three chapters. Grundy and Brown contextualise this approach correctly by calling the tool "indispensable", provided that:

- Continuous comparisons are made with competitors (we say this is achieved with the IME approach);
- The freedom exists to list an attribute as both a strength and weakness;
- We look at the attributes from a customer's perspective (true, but the IME model will also help with this approach); and
- We use ratings.

They also insist:

- That key areas are highlighted;
- We shouldn't be over-critical;
- We shouldn't equate SWOT with strategy nor with strategy analysis; and
- That we look for patterns that emerged from the SWOT.

(Grundy and Brown, 2002, p. 25).

7.   SUMMARY

We start our strategic process by posing very specific questions about where we are and what bothers us about our position, where we want to be, what we can use out of the environment to help us on our journey, where we might encounter obstacles and what our toolkit looks like. These are obvious questions, but if asked in a structured fashion around the IME approach, will be of great value further on.

We are now ready to look into the future. What will the future, in which the strategies that we think about today will be implemented, look like? We will talk about this in our next chapter.

Final Take-out

SYSTEMISED THINKING – The formulation of the key strategic questions is important. Asking the right question takes you halfway towards the right answer.

WHAT BOTHERS YOU? – Key strategic issues are those things that keep you awake at night. But you need to think beyond the obvious and therefore should use the IME framework – at least.

WHAT IS THE IDEAL SITUATION? – The ideal situation is to have those internal resources, market-specific factors and external positioning that will set me apart. The first things that I will invest in if I start the business from scratch will include minimum requirements **and** those things that will differentiate my business from others.

OPPORTUNITIES AND THREATS – Look for external trends that are attractive and detrimental. Be real. Also consider the likelihood of occurrence and impact.

WHAT DOES OUR TOOLKIT LOOK LIKE? – The toolkit is those things that you have and do, that set you apart, both in a positive and negative sense.

TO SWOT OR NOT TO SWOT? - If SWOT is a ritual – don't do it. If you know how to facilitate the SWOT and what to do with it, it will enrich your thinking.

SUMMARY - We are defined by what we worry about relative to our dreams for the future. Our thinking should be bounded by our worries, dreams, enablers and obstacles and what we have, or could find to use. Nothing more, but also nothing less.

CHAPTER 8

LOOKING AT THE FUTURE

Practical scenario planning - the future backdrop of the war

Critical issues for this chapter

LOOKING INTO THE FUTURE – Is this possible?

LEARNING FROM "PLANNING AS LEARNING" – Have we learnt anything from De Geus's work?

KEY UNCERTAINTIES – How do we identify and use key uncertainties?

SUMMARY – How does it all hang together?

1. LOOKING INTO THE FUTURE

One of the greatest talents that a leader can have is to look into the future effectively. A general might have:

- Established clearly and succinctly what the broad problem areas are in the army (strategic issues);
- Painted a thorough picture of the "perfect" army (key success factors);
- Carefully considered the external situation in which the army operates and in which the battle will be fought for aspects that will support troops in battle or might work against them (opportunities and threats),
- Inspected the army's toolkit for areas of advantage and shortages (strengths and weaknesses), *but*

the general still needs to establish the **future** conditions in which the war will be fought.

Many South African businesses looked at an exchange rate of the South African rand to the dollar that changed from around R6.00 in 1999 to R12.00 in 2001. Inflation was below 10% over this period, which meant that the cost of production factors over two years rose by around 15%, but income on exports, 100%! The Holy Grail for growth was exports and many business plans were developed based on a further slow and steady decline of the rand. Two years down the line, however, the South African rand strengthened to less than R7.00 per dollar. The winner here would have been businesses that were able to forecast the movements in the exchange rate correctly. As Arie de Geus said in his benchmark article, "Planning as Learning":

> Once in a crisis, everyone in the organisation feels the pain. The need for change is clear. The problem is that you usually have little time and few options. The deeper into the crisis you are, the fewer options remain. Crisis management, by necessity, becomes autocratic management. The positive characteristic of a crisis is that the decisions are quick. The other side of that coin is that implementation is rarely good; many companies fail to survive. The challenge, therefore, is to recognize and react to environmental change before the pain of a crisis." (De Geus, 1988, p. 71)

It is obviously not possible to look into the future with perfect visibility, but what **is** possible is to establish a range of possible future outcomes and then prepare the business for each possibility. The successful business in our example would therefore be the exporter who wrote a business plan for a R7.00, R9.00, R11.00 and R13.00 eventuality. De Geus calls this "institutional learning" and said that Shell for many years "triggered institutional learning through scenarios". He summarised this approach in the famous oil price case study. In 1984 (when the oil price was around $28 per barrel) De Geus's team had a $15 scenario, a terrifying scenario that no oil person in 1984 would have liked to think about. Managers in Shell responded by asking the team "When is the price going to fall, how far will it fall and how long will the drop last?", a typical response if you don't **want** to prepare for the worst. The team's response was:

> We don't know the future...but neither do you. And though none of us knows whether the price is going to fall, we can agree that it would be pretty serious if it did...We then described a case in which the price plummeted at the end of 1985 and concluded by saying: 'And now it is April 1986 and you are staring at a price of $16 a barrel. Will you please meet and give your views on these three questions: What do you think your government will do? What do you think your competition will do? And what, if anything, will you do?'" (De Geus, 1988, p. 73)

The price of oil didn't drop at the end of 1985 and in early 1986 it was still $27 per barrel. But by February of that year it fell to $17 per barrel and in April **$10**, and in De Geus's words the institutional learning "helped a great deal in that panicky spring of 1986".

2.   LEARNING FROM "PLANNING AS LEARNING"

Sadly, in the two decades following this ground-breaking work (De Geus's work was based on solid research at a large sample of companies in business for more than 75 years), a 2002 global survey reported that two-thirds of 140 corporate strategists polled admitted that their organisations were surprised by three or more high-impact events over the previous five years and **97%** admitted the complete lack of early warning systems (Fuld, 2003, p. 20).

Gardiner Morse (2003, p. 14) talks about "making a science of expecting the unexpected". What does this science look like? What are the basic requirements? We propose a simple 5-step process, i.e.:

- Anticipate certain scenarios;
- Understand the drivers and signals that will "announce" the unfolding of a specific scenario;
- Watch the drivers and signals – appoint specific "watchdogs";
- Communicate efficiently and effectively once a certain virtual "announcement" is detected; and
- Empower the line to make quick decisions once the "announcement" is made.

These steps are reasonably self-explanatory and form part of a simple, but robust, management process. The "trick", so to speak, is step 1. How do we anticipate certain scenarios?

3.   KEY UNCERTAINTIES

Scenarios are descriptions of possible future events with an uncertain outcome, over which the affected organisation has no control. This means that there are at least two elements at work:

- We don't know what is going to happen;
- Whatever happens will dramatically affect us but, even so, it is outside of our control.

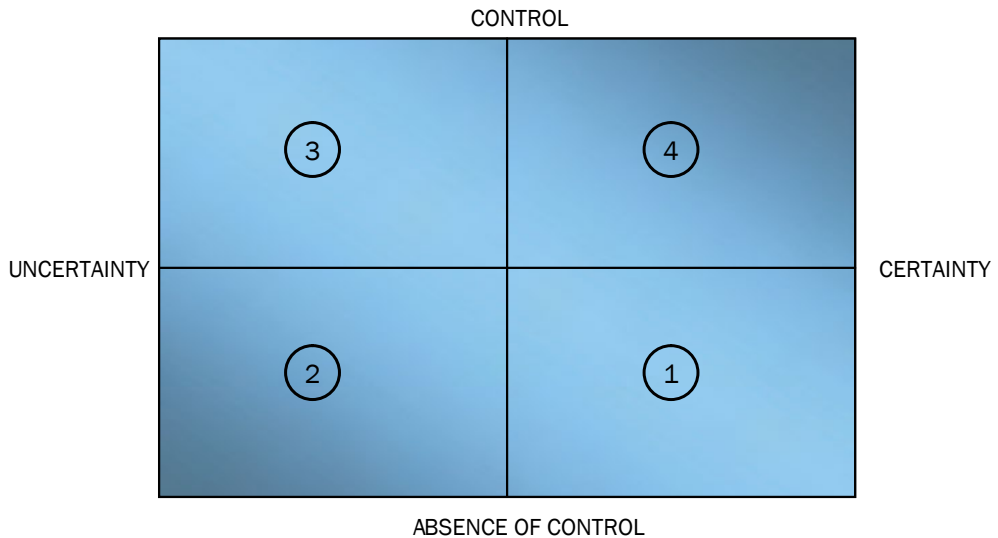Ilbury and Sunter (2001, p. 36) summarise these elements in a simple diagram, depicted in Figure 46.

CONTROL

③	④
②	①

UNCERTAINTY   CERTAINTY

ABSENCE OF CONTROL

Figure 46: *Scenario matrix*

Their work covers the areas described by the four quadrants extensively, but could be summarised as follows:

1. Predominant management behaviour in this quadrant depicts fatalists. We know what is going to happen, but feel we cannot control the response. The management response is quite easy: the game is **set up**, study the rules and look for an advantage, don't give up until a solution is found.

2. In this quadrant the dominant behaviour is existentialistic, a strong belief that everything happens by chance. It is here where scenario planning becomes a vital tool to prepare for the future **key uncertainties**.

3. In the third quadrant fence-sitters are often found. This management behaviour says **I am in control** but won't act until I am more certain. The overriding management behaviour should be to generate **options** and to act.

4. The fourth quadrant is the home of control freaks, where the need to be in control is so strong that managers hardly believe that anything uncontrollable could ever happen. The behaviour is marked by decisions.

Solving leadership behaviours in quadrants 1, 3 and 4 is clearly outside the scope of what we want to achieve here. The key question is how do we identify those uncertainties that are critical and outside of our control. We follow a simple identification process:

1. Extrapolation of known industry trends are used to create a range of potential future environments (this concept is depicted in Figure 47):
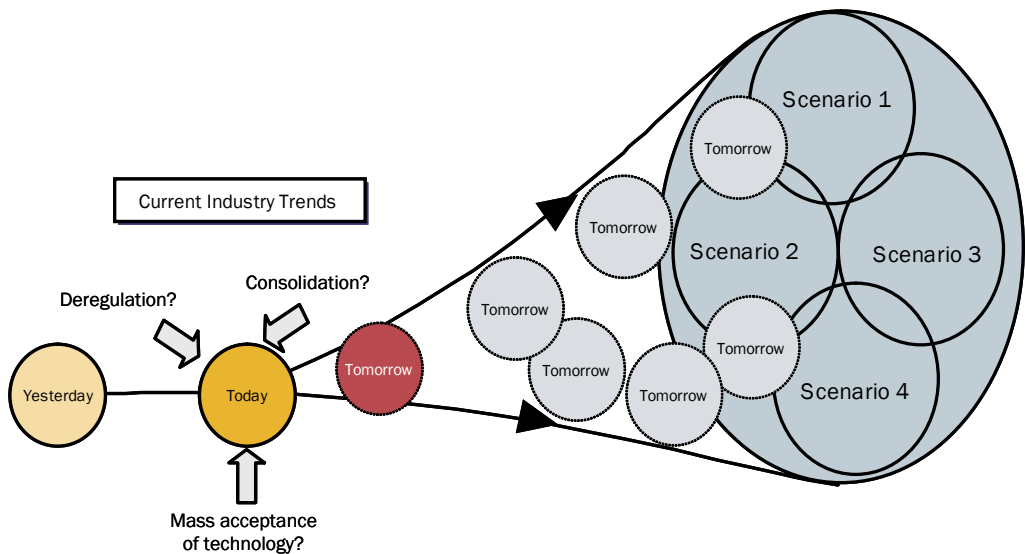
Figure 47: *Extrapolation of known industry trends to develop scenarios (Andersen, 2000)*

2. Participants are asked to assume that they are in the future (five or ten years from now, depending on the planning horizon), looking back over the planning horizon and to conclude that the company has been a great success. What external forces would the company have had to overcome and which would have accelerated its progress? The PESTE approach is used as a starting point (see box on the PESTE analysis).

3. The two most important forces are selected by the participants based on the degree of impact these will have on shaping the future business. (Our experience indicated that the judgement of most groups involved in the strategic session is sufficiently sound to enable this ranking).

4. The two selected forces are expressed in terms of opposing axes and the main characteristics of each quadrant are described. Each quadrant is also given a descriptive name to facilitate the understanding and communication of the scenarios.

Figure 48 depicts key external forces that will impact on the ability of a company to successfully transform (this work is not in the case studies, but was developed specifically for a company that expressed a wish to take certain proactive steps in the transformation space; see box on transformation). For example, if there are insufficient resources available and the regulatory framework to support transformation is stringent, there will be high unemployment leading to conflict and revolt, making the country ungovernable. Due to the scarcity of resources companies will not be able to comply with the transformation regulations. The situation will be a shareholders' nightmare. We referred to this situation as **"Zimbabwe"** due to the unfortunate turmoil defining the country since the latter part of the 1990s (in the midst of more rapid and stringent government transformation regulations). In the **"Singapore"** scenario the regulatory framework is also stringent, but strong resources (such as a highly efficient harbour) and high productivity can still lead to success. A company preparing for this environment will lobby government for economy-efficient controls and involvement.
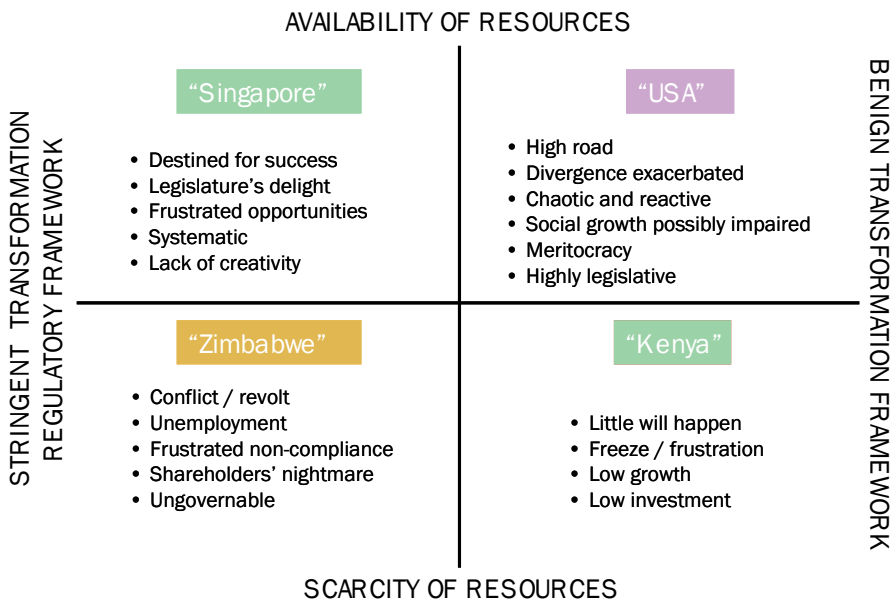
Figure 48: *Examples of scenarios impacting on successful transformation*

The PESTE Analysis

This is the macro environment, which consists of broader forces that have a bearing upon the company. The environment consists of the following variables, which, although largely uncontrollable by the firm, will affect it in many ways:

Political / legal factors such as:

- o   Anti-trust legislation
- o   Deregulation
- o   Environmental protection laws
- o   Foreign trade regulations
- o   Employment laws
- o   Government stability
- o   Taxation

Economic factors such as:

- o   Business cycles
- o   Interest rates
- o   Money supply
- o   Inflation
- o   Unemployment
- o   Energy costs

Socio-cultural factors such as:

- o   Population demographics
- o   Income distribution
- o   Social mobility
- o   Life-style changes
- o   Attitudes
- o   Consumerism
- o   Levels of education

Technological factors such as:

- o   New discoveries/developments
- o   Speed of technology transfer
- o   Rates of obsolescence
- o   Government investment in research

Environmental / ecological factors such as:

- o   Pollution
- o   Seismic activity
- o   Global warming
- o   Desertification
- o   Erosion

Transformation in South Africa

South Africa has had a long history of oppression, typified by racial segregation and initiated by the previous government's notorious apartheid policy. The apartheid policy was by far one of the worst and most pervasive aspects of South Africa's history, but the policy also harmed other areas of economics, society and the environment. These were obvious in poor productivity, improper spatial planning, destruction of the environment and often out-dated management, leadership and people practices.

It is therefore inevitable that the country requires transformation and, in the light of what drove our previous mistakes, it is even more inevitable that transformation carries a large burden of generating improvements in representation, more commonly known in the Western World as affirmative action. It is important, though, to understand that this transformation also seeks to address the downstream consequences of having to overcome the apartheid legacy and other errors, such as black economic empowerment, poverty alleviation, care for the environment and society in general and the improvement of education on all levels. The country is successful in many of these areas, also due to the peaceful nature of the initial transformation, but many difficulties still lie ahead. There is a constant debate in South Africa, which is also quite pervasive, on the regulatory framework of the transformation. Should government play a less or more active role? Recent election results suggest that society supports the government's policy and the **pace** of reform, but the long-term future will tell us if we moved at the right pace. The proverbial jury is still out on this issue.

In another example, Figure 49 depicts key external forces that will impact on the future success of a company operating in the health and leisure industry. For example, if there is an improvement in the health consciousness of the population, while disposable income is rising, the company has a bright, perhaps even utopian future. Consumers are wealthy and healthy – new age yuppies. On the other hand there will be few challenges to be creative! Products that could be developed in this scenario are expensive, comprehensive health and leisure products – a "one-stop shop" type of scenario. It is interesting how preparation for a health and leisure company in the other quadrants will change. More basic, outdoor and cheaper products for the **"healthy farmer"** scenario, expensive alternative "therapies" for **"fat cats"** and even some options for **"Sukkelfontein"**[10].

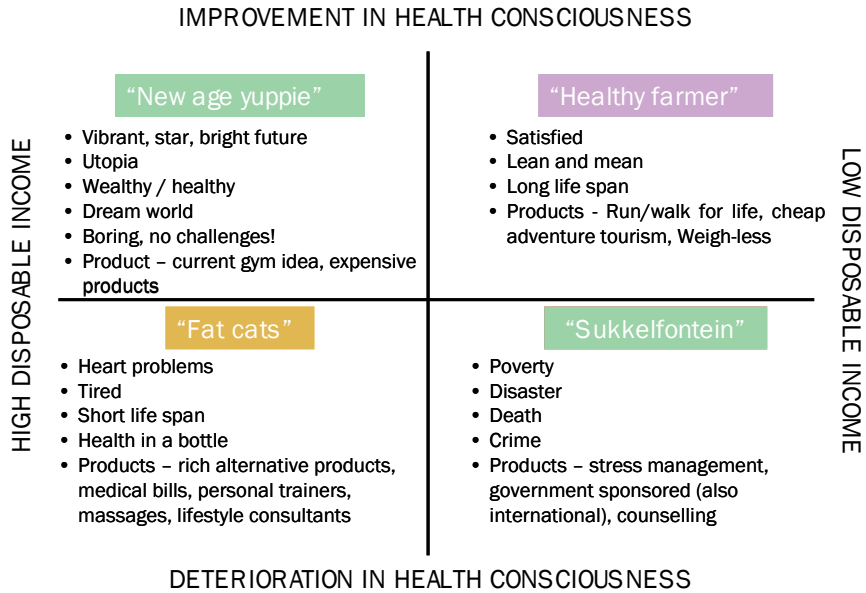[10] "Sukkelfontein" is a colloquial term for a poor community, literally meaning "fountain of struggle".

IMPROVEMENT IN HEALTH CONSCIOUSNESS

"New age yuppie"
- Vibrant, star, bright future
- Utopia
- Wealthy / healthy
- Dream world
- Boring, no challenges!
- Product – current gym idea, expensive products

"Healthy farmer"
- Satisfied
- Lean and mean
- Long life span
- Products - Run/walk for life, cheap adventure tourism, Weigh-less

"Fat cats"
- Heart problems
- Tired
- Short life span
- Health in a bottle
- Products – rich alternative products, medical bills, personal trainers, massages, lifestyle consultants

"Sukkelfontein"
- Poverty
- Disaster
- Death
- Crime
- Products – stress management, government sponsored (also international), counselling

HIGH DISPOSABLE INCOME

LOW DISPOSABLE INCOME

DETERIORATION IN HEALTH CONSCIOUSNESS

Figure 49: *Examples of scenarios impacting on the health and leisure industry*

4. SUMMARY

We **must** look into the future. This might not seem possible, but in fact it is made possible by developing key future scenarios. This will improve organisational learning and greatly enhance our mental model of the business.

Once we understand the future possibilities, know what we have (and do not have), understand what support we might get (or not get) and know what our dreams and problems are, we are ready to make certain strategic choices. In the next chapter we will look at this challenge.

Final take-out

LOOKING INTO THE FUTURE – This is a wonderful ability, but clearly not possible in its absolute form. But we **can** prepare for the future, identify possible outcomes, learn and prepare ourselves for those outcomes.

LEARNING FROM "PLANNING AS LEARNING" – Sadly, proper and useful scenario planning is still largely absent. The process is simple: anticipate a range of possibilities, understand the signals for pre-warning for each possibility, watch them, communicate and empower as the "prepared-for" events play out.

KEY UNCERTAINTIES – It is quite easy to identify key uncertainties with the use of the PESTE template. We propose a simple model, using two uncertainties to create four scenarios, which is in most cases quite adequate.

SUMMARY – Looking into the future with certainty is impossible, preparing for certain possible future eventualities is however not only reasonable, but critically necessary.

CHAPTER 9

STRATEGIC CHOICE

Making decisions and formulating the first draft battle plan

Critical issues for this chapter
CRAFTING – What are the basics of crafting?
THE PROGRESS OF STRATEGIC CHOICE – What are the key criteria for effective choice?
THINKING AIDS IN CHOICE – How can we support choice (a difficult step) with thinking aids?
WHAT ABOUT VISION? OR MISSION? – Did we forget about vision?
SUMMARY – How do we pull these thoughts together?

1. CRAFTING

At the point of strategic choice the process reaches an indisputable climax or inflection point. An inability to "solve" the nearly algebraic statement (what do issues plus key success factors plus toolkit plus opportunities and threats against certain possible futures require in terms of strategic action) will mean that the process was unsuccessful. Does this ever happen? In all the processes we have ever facilitated or where we were part of a facilitation team, this has only ever happened once (mostly because too little time was allowed for this critical step). Does this mean the process is fail-safe? In a certain way it is. If enough strategic energy is applied to the problem, it should nearly always produce the optimal result.

Mintzberg *et al*. (2003, p. 143) call the process **crafting** and maintain that "no craftsmen think some days and work others". This means that strategies can develop in strange ways and show up in strange places (see box on grassroots and hothouse models of strategy formation in Chapter 2). This couldn't be more true, but is this statement relevant here, where we specifically look at a group process in real-time, i.e. the strategic conference?

We think it is, because if strategy is a craft one needs to get the best crafters together when crafting takes place. This doesn't point to exclusivity. By excluding people, a huge opportunity to **learn** is lost. But it does mean that the important people who can support the process should be there. Mintzberg *et al*. (*op. cit*., pp. 148-149) provide four criteria for such people:

1. **Detect discontinuity.** Certain people have an uncanny ability to detect subtle discontinuities that can undermine a business in the future or provide hidden opportunities of exploitation.
2. **Know the business.** A real, deep and nearly personal knowledge of the business must be present in the room.
3. **Manage patterns.** Through the processes described in the previous chapters a pattern has already emerged. The true strategist is the person who can identify and grasp those patterns.

4. **Reconcile change and continuity.** There is a time to sow and a time to reap. Although a certain pattern is emerging and the organisation must be prepared for it, it is not always the right time to change. Managers who is either too scared to change or who are change besotted can do a business great harm.

In summary, the work of the strategic craftsman is to get his "crafting tools" (strategic thinkers) together and look at his material (his business in a specific environment which he should know well). What discontinuities does he already see in the material and what patterns are available? Finally, a willingness **must** exist to **work** with the material and transform it – at the right place and time.

2. THE PROGRESS OF STRATEGIC CHOICE

These criteria point us to the elements in the progress of successful strategic choice (as depicted in Figure 50).
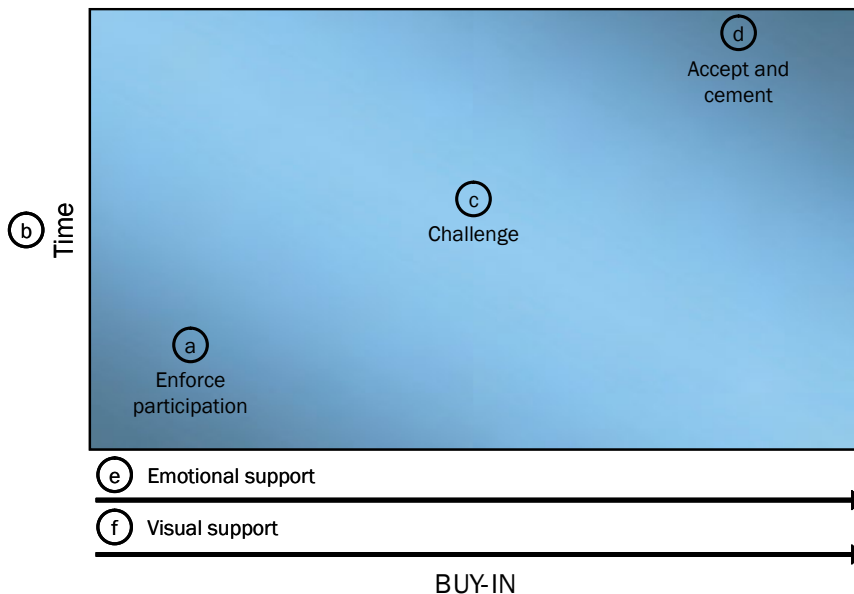
Figure 50: *The progress of strategic choice*

a. **Participation is not optional**

If ever there is a time for a leader to be autocratic, it would be in enforcing participation. Strategic work is not a **part** of the job description of the senior management team; it is the job in total. An inability to enforce participation would be a critical failure for any CEO or leader in any situation. At this point buy-in might be low – that's OK. The challenge of the final part of the process will be to, inter alia, engineer buy-in. This is also true in personal matters. At some stage we refuse to bring our holistic "persona" to a problem and we need to force ourselves to reconsider our lives in a more holistic

fashion. Ultimate success in our personal lives requires the "participation" of physical and mental health, family and societal support, wholesome relationships, etc. and sometimes we have to "force" ourselves to reactivate areas that have been neglected. (For many of us neglect is often observed in the form of stress (mental neglect), family neglect (absent from children and loved ones) or even physical neglect (overweight and unfit) Mind, body and soul needs attention.)

b. **Allow enough time**

Strategic thinking can be a time-consuming process. After all the hard work that was required to get to this point, enough time **must** be made available to solve the final challenge. In the most dramatic failures that we have witnessed, including the one in which we were involved, not enough time was allowed to complete this process. This should never be allowed to happen and we will now rather walk away from a facilitation process than agree to a process where this part is neglected. This is obviously a relative aspect. Strategy sometimes has to be developed in only a few hours or even minutes. But in those cases nothing less than 25% of all the strategic thinking effort should be spent on this part.

c. **Challenge the participants**

We often see a dumb-founded look on participants' faces at this stage of the process. In spite of this, everybody gets through it quite well. The problem is not that it is that difficult to do, but rather that it **appears** difficult. We shouldn't allow this perception to derail the process, but rather challenge participants to continue. In one very interesting case study a specific participant noisily wanted to stop the process at this point. The participant was not a direct part of the management team and it was clear to the facilitators that he was literally "scared" of where the discussion might go. Will the outcome harm his interests? Strangely enough, the strategy that evolved was so dynamic that all parties, including the "scared" participant and his interests, were served extremely well by the outcome.

d. **Accept and cement the results**

At some stage the process is complete. Owen says:

> *Whatever happens is the only thing that could have,* a reminder that real learning and real progress will only take place when we all move beyond our original agendas and convention-bound expectations. If everything turned out just the way everybody expected, life would be exceedingly dull, and learning in any useful sense simply would not occur. It is precisely in moments of surprise, large and small, that we grow. It is important to cherish such moments and realize that whatever happens is the only thing that could have. (Owen, 1995, p. 70)

We have yet to be involved in a process, either as participants in a well facilitated session or as facilitators ourselves, where we weren't enriched by the outcome of the proceedings. It is important to illustrate this to the participants and begin the process of acceptance and cementing.

e. **Provide emotional support**

The process of strategy should not be divorced from emotion. By trying to keep it cold and unfeeling, creativity would be lost. Rather allow for emotions, but provide support for emotions as they emerge. In difficult situations, where complex

transformation is imminent, we urge clients to consider **process work** as part of the intervention.

Schein defines process consultation as:

> A set of activities on the part of the consultant that helps the client to perceive, understand and act upon the process events that occur in the client's environment. (Schein, 1987, p. 34)

These events obviously could become emotionally challenging at this stage of the process. The methodology, especially as further developed by Mindell, instills respect for each other's opinions and is only sustainable if they have "recognised and incorporated the wisdom of **conflicting opinions**" (Schupbach, 2004, p. 8). In this sense the methodology promotes "Deep Democracy" within groups.

f.   **Provide visual support**

We have achieved excellent results with visual aids. Rather than just "wallpapering" the room with scribbled flip chart paper, we summarise and colour-code using large stickers. These "gimmicks" work and there is absolutely no reason why they should not be employed. It is ridiculous to try and save on these when a billion dollar company contemplates the future and even more ridiculous to walk away from visual aids merely because the use of these aids seems clichéd. It is a well established fact that visual aids work, therefore they should be used.

3.   THINKING AIDS IN CHOICE

People often require more direct support to identify the underlying patterns. One of the best aids that we have seen is the return to the military example of strategy types, depicted in Figure 51 (developed by a colleague, Johan Ackron).
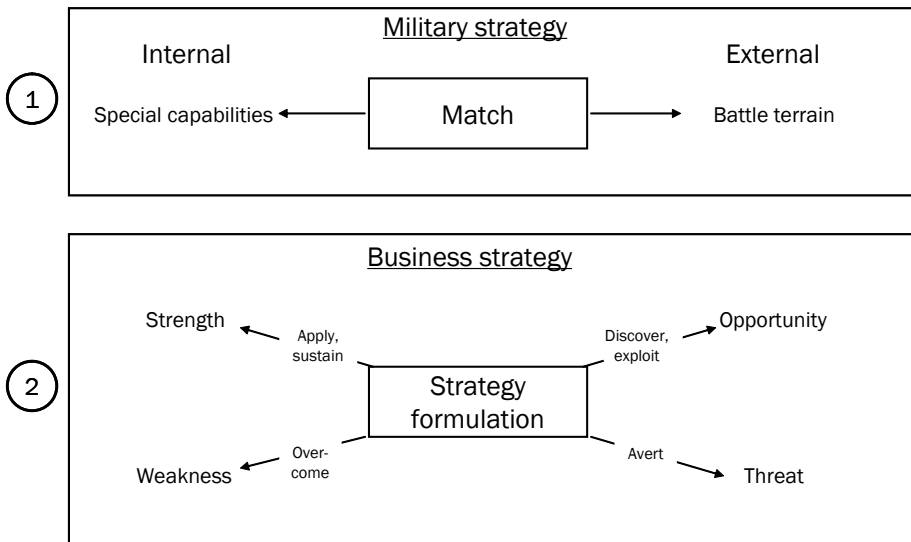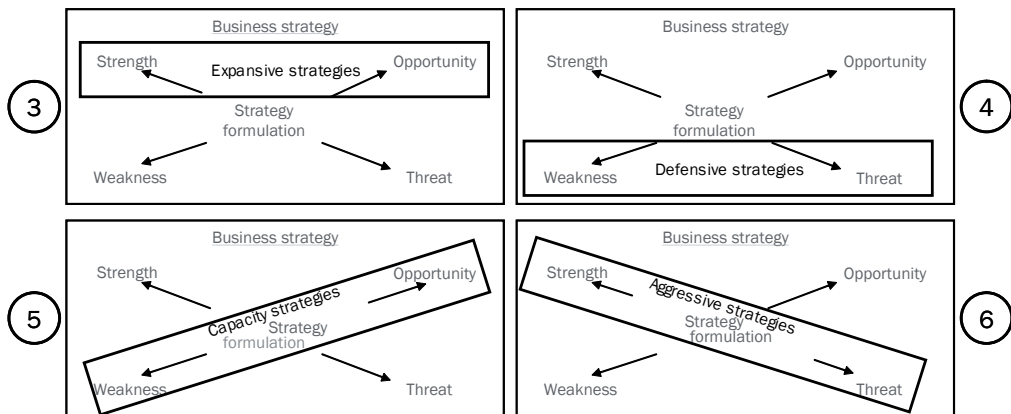
Figure 51: *Strategy formulation aids*

1. In the military analogy the army has certain capabilities which impact on the way in which it wages war on the battle terrain.

2. In terms of business strategy the business has certain strengths to apply and sustain, weaknesses to overcome, opportunities to discover and exploit, and threats to avert.

3. When a business identifies a strength it can apply to exploit an opportunity, this is an **expansive strategy**. Literally, for example, we have better weapons and greater troop strength than the enemy **and** the terrain favours us – so let us **expand** our area of control.

4. When there is a threat that could impact on an area of our weakness, we need to develop a **defensive strategy**. Literally, we have observed that the enemy is better equipped than we are right now and the terrain favours the enemy – so let us get into a proper **defensive** position.

5. When there is an opportunity that can only be exploited through the development of a weakness, this is a **capacity strategy**. Literally, the terrain favours us right now, but we don't have the necessary troops and weapons – so we therefore need to develop the **capacity** of our army.

6. When we have a strength that can be applied to avert a threat, this is an **aggressive strategy**. Literally, the terrain doesn't favour us right now, but we are stronger than the enemy – so let us attack aggressively so that we can overcome the poor terrain position.

We employ this line of thought separately for each of the three areas of internal, market and external.

This process helps us to understand what is **possible**. The final step is to identify what it is that we actually want to do. An expansive strategy might illustrate the possibility to take a certain hill, but do we want to? Will it have future value? Do we want to defend a certain position? Shouldn't we just abandon it? The last step in this initial choice is therefore to **relate possible** strategies with issues and dreams (Figure 52).

	Issues	KSFs	Possible strategies	
External			Expansive strategies Defensive strategies Capacity strategies Aggressive strategies	
Market			Expansive strategies Defensive strategies Capacity strategies Aggressive strategies	
Internal			Expansive strategies Defensive strategies Capacity strategies Aggressive strategies	

Figure 52: *Possible vs. Attractive Strategies*

The reader is referred to the case studies in Chapter 16 to appreciate how the strategic process culminates in strategic choice – strategic themes that should be addressed for the sustainable future of the business.

4.   WHAT ABOUT VISION? OR MISSION?

Some practitioners might ask if the discussion should not have started with vision and mission. There are even "deep" management sciences that distinguish between vision and mission. We are now already talking about the formulation of strategy or strategic choice and the question of vision and mission has not yet been covered.

Simpson is quite harsh when he talks about some of the energy expended in vision and mission statements:

> Former U.S. President George Bush was widely criticised for an offhand remark he made about 'the vision thing.' Not long after, Lou Gerstner felt the sting of the same criticism just after he became Chairman of IBM and said 'the last thing IBM needs right now is a vision.'

> Add me to the underground list of people who think that most work on mission, vision and values is a waste of time. Not all, mind you, but most.

> In my experience, the results of the great majority of the work are an insult to the intelligence of the average human. Most of it is either generic or it's gibberish. The popularity of mission, vision and values as subjects for cartoons should tell us something. (Simpson, 2004, p. 1)

Simpson goes on to quote a useful example, which was quoted with a "straight face":

> We are committed to an organisational capability and mindset which guarantees rapidly delivering exceptional customer and stakeholder value by negotiating and making the appropriate trade-offs among schedule, quality, cost, functionality, technology limits and resources. (ibid.)

We couldn't agree with Simpson more when he asks what it is that these people really do and confesses that he doesn't have "the foggiest idea". The most important insight for us is one that we also arrived at independently:

> If you are willing to invest the time and energy to try to reach the elite where mission, vision and values come to life and really impact decisions … do such work at the end of your strategy development work and not at the beginning. If your name is Richard Branson, then tackle the work at the beginning. But if you don't have his skills, and most of us don't, then don't try to see the end from the beginning. You can't. (Simpson, 2004, p. 3)

We will therefore return to the "mission" issue at the end of the next chapter.

5. SUMMARY

Strategy is a craft. The crafter uses her tools (participants) to detect discontinuities and patterns in her material. She then commits herself to the **transformation** of the material at the right time and place. She uses all the tools available (enforces participation), challenges participants and finally gives herself enough time to get a participative, accepted and cemented answer. She uses emotional and visual support to achieve results. Finally, **possible** strategies are developed by looking at the relationship between strengths, weaknesses, opportunities and threats. These are then compared to issues and dreams to get to the **chosen** strategies. We now have a list of seemingly attractive strategic themes. Can we map and refine these alternatives? We will discuss this refinement in the next chapter.

Final take-out

CRAFTING – Crafting is about looking for and exploiting discontinuity and patterns. This is only possible if the craftsman **knows** his material and is willing to transform it.

THE PROGRESS OF STRATEGIC CHOICE – Effective strategic choice means enforced participation of the right people with enough time to be challenged, to consider alternatives and to be led to accepting a solution, with emotional and visual support.

THINKING AIDS IN CHOICE – We use military aids in dealing with the **relationships** between strengths, weaknesses, opportunities and threats to generate **possibilities.** Possibilities are compared with issues and dreams to determine what is attractive, and **choices** are made.

WHAT ABOUT VISION OR MISSION? – Vision and mission are derived statements. They should **follow** strategic work and not **precede** it.

SUMMARY – Strategies are crafted. Think about what the crafter needs, how she operates and how she completes her work.

MAPPING STRATEGIES

**Conceptualising the battle plan for greater understanding –
achieving depth of thought and participation**

Critical issues for this chapter

TECHNIQUES FOR PRIORITISATION AND INTERPRETATION – How do we interpret and prioritise themes?

DETERMINING VALUE DRIVERS – What has value got to do with it?

THE REVOLUTION – Are there revolutionary approaches to selection?

COMPETENCE AND RELEVANCE – Can we do it, is it necessary and do we want to?

VISION – THE ASHRIDGE WAY – Do we need a vision now?

SUMMARY – How do we pull these thoughts together?

1.   TECHNIQUES FOR PRIORITISATION AND INTERPRETATION

Once the strategic choice has been made, and a list of strategic themes generated, it is prudent to go through a process of prioritising and strategically interpreting the results. We have used a variety of tools to do this and have found some value in all of the tools. It is useful to apply more than one tool if time permits, for this always leads to a greater understanding of the common patterns among themes. It is not possible to give a hierarchy here, but rather to sketch specific **situations** in which each tool works better.

2.   DETERMINING VALUE DRIVERS

One way to analyse the strategic themes that were generated is to question whether the theme:

- Will impact on the value of the company;
- Can be influenced by management; and
- Can be measured.

The questions are visually depicted in Figure 53.

Ideally, strategic effort should be focused on those areas where the creation of high value can be measured and influenced by management.

Identified themes with a low value should be reconsidered. Value should, however, be defined clearly – in the long term it does come down to increased return for shareholders. But themes should be carefully evaluated. Socio-economic themes, for instance, might seem costly and nice to have at the moment, but without that investment the company's future might not be sustainable in the community.
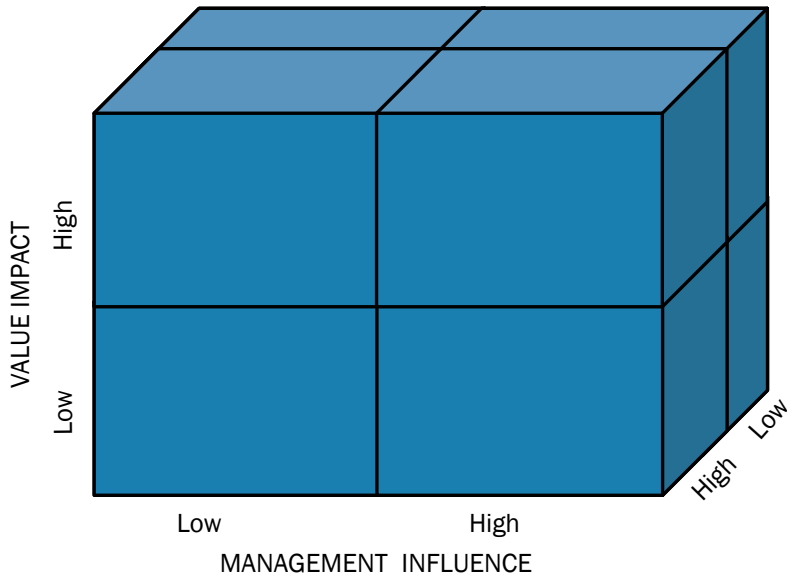
Figure 53: *Determining value drivers*

Where themes were rated with a high value, but with low measurability, management should investigate methods of developing measures to monitor progress. These are normally soft issues that are critical to implement.

Where themes were rated with a high value, but management has little influence on the execution of the theme, management should investigate ways of developing its networks in relation to that theme. Networks are important, because these themes are almost always issues external to the firm, but have a critical impact on the company, such as the performance of the supply chain.

As is apparent from the name, this tool works best with groups that very quickly want to consider only a few alternatives and who wish to start with the implementation of valuable strategies immediately.

3. THE REVOLUTION

We believe that correct leadership in the strategic choice should lead to a choice that includes both the environmental view of Porter and others, and the resource-based view of Hamel and others:

- The basic premise of the **environmental view** is that there is a specific environment determined by, *inter alia,* industry constructs and external forces. The company has to fit into this given environment – strategic choice is therefore limited.

- The **resource-based view** emphasises that the company has resources available such as the ability to innovate, knowledge, financial and other assets. These create core competencies and capabilities, on the basis of which a company can create a place for

itself in the market place – strategic choice is therefore basically unlimited.

In his book, *Leading the revolution*, Gary Hamel emphasises that innovation is to be found both in the systemic and radical approach to business:

CEO's, CIO's and efficiency-besotted consultants spent the 90's learning to think systematically about business processes. Initiatives aimed at supply chain integration, process re-engineering, enterprise resource planning and customer relationship management demolished functional chimneys and criss-crossed organisational boundaries. Yet they were seldom radical, and many impacted only a single component or process in the company's overall business model. *Business concept innovation is both radical and systemic*. (Hamel, 2000, p. 17)

This belief of Hamel (*op. cit.*, p.18) is depicted in Figure 54.

	Component	System
Radical	Non-linear innovation	Business concept innovation
Incremental	Continuous improvement	Business process improvement
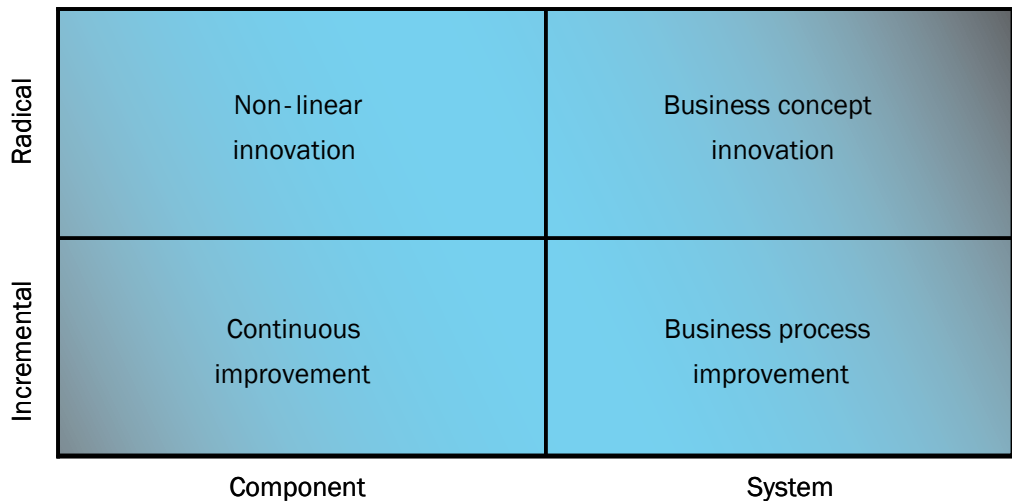
Figure 54: *Move towards business concept innovation (based on various improvement styles)*

In keeping with our approach of always evaluating the internal, market and external environments, we have expanded this to include the external environment (Figure 55).

We also believe that incremental and radical changes can be achieved in the internal, market and external environments.

The strategic themes are plotted on this matrix. Thought gaps are the "empty" areas. It is not necessarily a prerequisite to have a theme in each area, but the management team must understand that the area is not receiving strategic attention at the moment, and what the implications of that could be.

We've found that this methodology works best if the facilitators suspect that the participants are very much set in their ways. Some examples that we've found include the following:

	Component	System
External	Environmental influence	Environmental control
Markets	Nonlinear innovation	Business concept innovation
Enablers	Continuous improvement	Business process improvement

Figure 55: *Move towards environmental control*

- Many engineering and resource-based firms, with long histories, seem to be busy with **continuous improvement.** Often in strategic sessions many themes that arise are in this area. The more advanced of these firms have dabbled in business improvement and in some cases spent tremendous efforts on these actions. The challenge for these firms, and for the facilitator if this is a typical result of the process, is to help the participants to understand the **disruptive future** of non-linear events in their markets (which will – in the fullness of time – come) and the need to continuously re-engineer not only process but the entire business concept. Often attempts to influence the environment (even control it) are insufficient.

- Some new, or marketing and innovation-orientated, firms sometimes generate only non-linear innovation or new business concepts. Firms will eventually die if basic processes are not continuously improved and re-engineered. This is also important.

- A few parastatal type businesses that we have facilitated (but also some with private shareholding) sometimes get "stuck in the environment". This is incredible but true. Trying to influence the political or shareholder control of your business cannot be the only strategy. In fact, environmental control points to an array of external actions amongst shareholders, regulators, venture partners, etc. Obsession with this aspect sometimes means too little attention is devoted to new market concepts, the business's own process improvements, etc.

4. COMPETENCE AND RELEVANCE

Another model (source unknown) to facilitate interpretation of the strategic themes is rating the competence of the organisation to implement a theme, and the relevance of the theme to the business (which links to value described earlier). These ratings are normally done from

1 to 5, where 1 means either incompetence or low relevance. The ratings are plotted on a graph, as depicted in Figure 56.
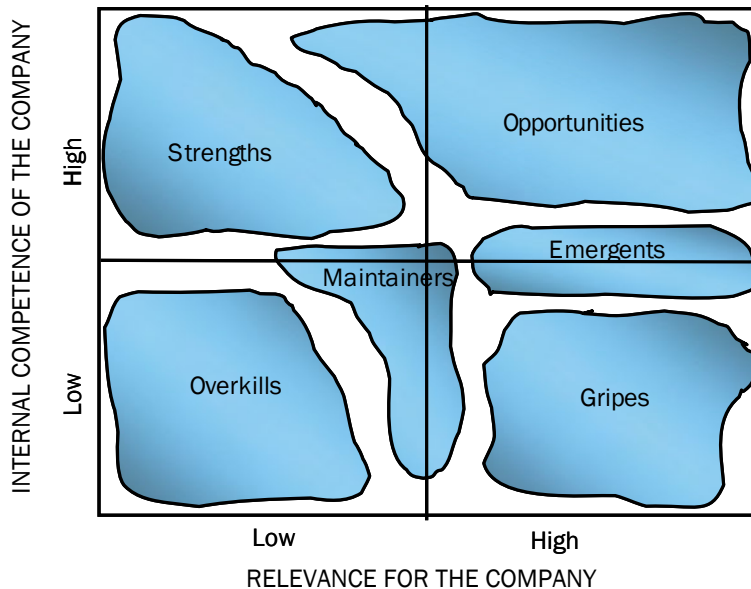
Figure 56: *Interpreting competence and relevance*

- **Overkills:** The inclusion of these themes in the company's strategic agenda should be re-evaluated. Though competence is low, value is also low.
- **Strengths:** Relevance is low, but the company has high internal competence. The strengths in these areas should be leveraged to achieve other goals.
- **Maintainers:** The business relevance is only relatively high. The company has some competence to deal with this and should maintain its efforts in these areas.
- **Gripes:** Business relevance is very high but competence low. The company should invest in increasing the competence to achieve these strategic themes as the company will benefit significantly from doing so.
- **Emergents:** Business relevance is very high and the company has average competence. Once again, the company should invest in increasing the competence to achieve these strategic themes as the company will benefit significantly from doing so.
- **Opportunities:** Strategic themes that have significant business relevance and there is highly developed internal competence to implement the themes. These themes are low-hanging fruit ready for picking.

We've found this approach works well in large groups where many strategic themes are competing for a place. We project the themes on an electronic worksheet in the room and then ask the participants to first rate the strategies for competence and relevance. This is followed by a group discussion on the "effort" that should be allocated to each strategy (see the simple example in Figure 57).

	Initially	After pass 1	After pass 2	Final pass
Strategy 1	20	20	10	15
Strategy 2	20	40	35	35
Strategy 3	20	20	5	5
Strategy 4	20	50	30	30
Strategy 5	20	20	15	15
Total	100	150	95	100

Figure 57: *"Effort" points for themes (a simple example)*

Participants are asked to imagine that the organisation has 100 "effort points" to execute the strategy. At first, we assign the points equally to each strategy. Participants are then asked to discuss this amongst themselves and then add extra points where required. This process is repeated, but this time points are subtracted, and with the final pass the scores are balanced to add up to 100 again. We've found that the robust discussion on competence and relevance and the allocation of "effort" points enhance and expand the initial understanding of the themes and begin the process of acceptance and cementing. In the graph the size of the bubble that represents the strategic theme is relative to the theme's final "effort" points.

We refer the reader to the case studies in Chapter 16 for the practical application of this model.

5.   VISION – THE ASHRIDGE WAY

The Ashridge Mission Model, developed by Campbell and Yeung (1991), supports the approach to complete the strategic process and to then confirm the purpose, strategy, behaviour standards and values of the company based on the renewed strategic insights. These concepts are interpreted as follows:

- **Purpose:** Does the mission statement describe an inspiring purpose that avoids playing to the selfish interests of some stakeholders?
- **Strategy**: Does the strategy statement define a business domain and explain why it is attractive? (This is based on the strategic themes developed earlier).
- **Behaviour standards**: Does the statement describe important behaviour standards that serve as beacons of the strategy and values?
- **Values**: Does the statement identify values that link with the organisation's purpose and act as beliefs that employees can feel proud of?

This model is depicted in Figure 58.
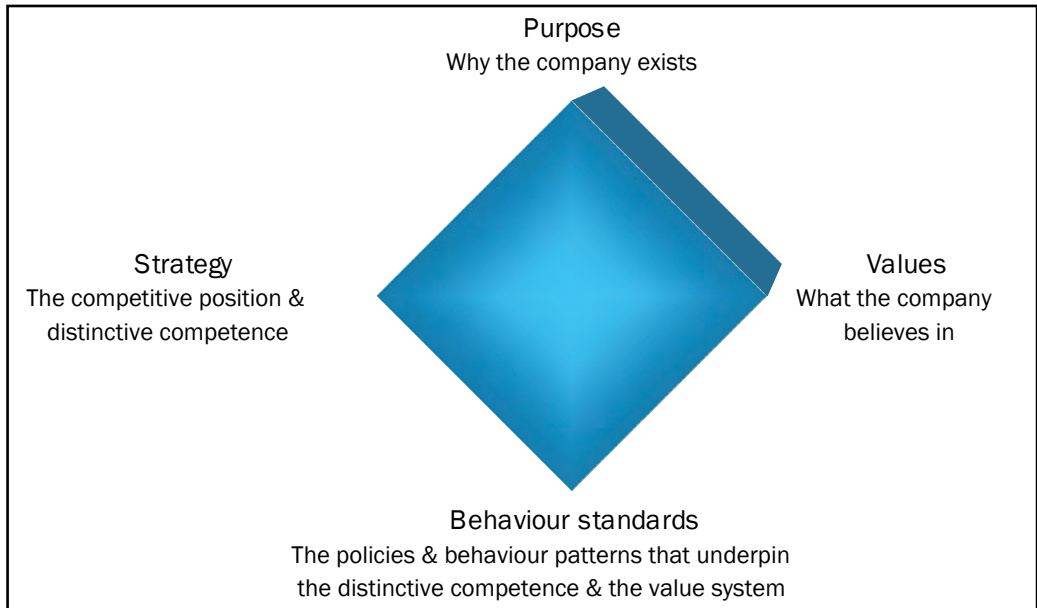
Figure 58: *The Ashridge mission model*

An example of the model applied in a financial services company is given in Figure 59.
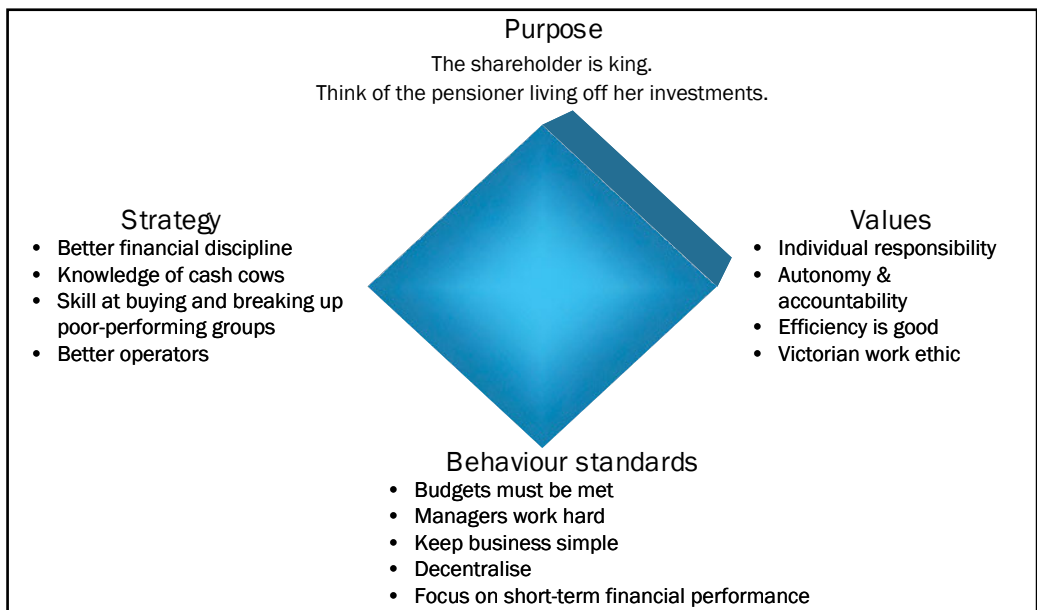
Figure 59: *Ashridge mission model applied in a financial services company*

6. SUMMARY

We have now taken our broad list of strategic themes and, by looking at value drivers, creativity, competence, relevance and aspiration, reduced these to a succinct list of strategies.

We are now ready for the next big step. How will we make it happen? In the next section we will discuss the implementation topics.

<div>

Final take-out

TECHNIQUES FOR PRIORITISATION AND INTERPRETATION – Prioritisation and interpretation are an extension of the **craft**. There are no absolutes and the situation will determine the technique.

DETERMINING VALUE DRIVERS – The value driver approach is used as a rule of thumb to quickly identify valuable strategies that management can influence and of which the results are easily measurable.

THE REVOLUTION – The most revolutionary approach to selection is to understand that the company must "fit" into the environment, but with the skilful, clever and innovative use of resources should be able to "make" itself fit – even if this requires changing the environment.

COMPETENCE AND RELEVANCE – Competence/relevance plotting answers the critical questions of our ability, need and aspiration to execute a strategy. It is, however, the debate, rather than the numbers or plot, that makes a huge contribution.

VISION – THE ASHRIDGE WAY – The vision, if the process was facilitated well, will now be apparent in its most basic form. Using a good model, such as Ashridge, will facilitate further cementing and buy-in.

SUMMARY – The definitive step is to **decide**. After all that has been said and done, don't continue without decisiveness.

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PART 3

IMPLEMENTING STRATEGY

THE OBSTACLES TO IMPLEMENTATION

How an army's leadership, way of doing things and quality of soldiers will make or break the implementation

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Critical issues for this chapter

STRATEGY WITHOUT IMPLEMENTATION – Is strategy implementation a separate function from strategy? I.e. is an unimplemented strategy a strategy?

PRINCIPLES OF STRATEGY IMPLEMENTATION – What are the core principles of implementation?

CAPACITY TO CHANGE – Do we have the capacity to change?

INITIATING PROGRAMME MANAGEMENT – Should we have an implementation programme?

SUMMARY – How do we pull these thoughts together?

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1. STRATEGY WITHOUT IMPLEMENTATION

The most important question is: what is a strategy without implementation? And the most obvious answer is "nothing". Implementation is not a "next step". There is no such thing as a "strategy implementation phase" that follows strategic thinking – strategy implementation is a core part of strategy. "Strategy" can be said to consist of thinking, conceptualisation and implementation, and not one of the three can be divorced from the others.

This would be the same as trying to conceptualise a car with an engine, body, wheels and steering mechanism and to imagine that the car would be of use without any of these four parts – it won't.

Similarly, the general that prepares for battle and, at the crucial moment, withdraws from the battlefield and sends his troops home will not be a general for long. Neither will a general who prepares for battle send her troops into battle and then retire from the battlefield. The general will oversee the battle, get involved and inspire her troops at crucial moments. (Contrary to popular belief, senior officers do exactly this and the best of them see battle experience right through their careers. In most wars many generals are killed in action[11]).

Yet, astonishingly, many businesses still sport "strategy implementation" teams and, in a recent case, even a person whose permanent job is "strategy implementation". This doesn't make sense. Strategy is implemented by line – it is not a staff function.

2. PRINCIPLES OF STRATEGY IMPLEMENTATION

This brings us to the first principle of implementation: **leadership through the line**. There is no such thing as "leaders" at the top and "managers" at the second layer. All managers must be leaders.

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[11] Being a general in the German army in World War II is a good example. Every two weeks one died (136 in total – not counting the 84 that Hitler executed).

But leadership is often hampered by an intangible, difficult to define phenomenon that many management scientists call culture. Culture, or the way in which things are done, is at first a result of leadership, amongst other factors, but once entrenched it will influence leadership in the future. When Scott decided to go to the South Pole, he tried to mount an all-inclusive expedition with many scientists, representatives from branches of the British defence force, etc. In short, he tried to make it a national effort. He even believed in hauling supplies themselves (with limited dog use) to show "character". Amundsen on the other hand, had a single-minded technical approach, i.e. to get to the South Pole and get there first. This difference in vision and leadership gave rise to two different cultures or "ways of doing things". When Scott encountered major obstacles, he consulted widely, which is a good thing, but then often made sub-optimal decisions purely to stick to his inclusivity principle. When deciding who to include in the last legs of the journey, he didn't select the fittest, but rather a representative sample from all the groups he wanted to include. Amundsen, on the other hand, stuck to the single-minded approach and ruthlessly (after consultation) made decisions that led to the goal: getting to the South Pole first. Amundsen won and survived, Scott and his expedition perished (see case study in Chapter 17).

Culture relates to an organisation's habits. Like in all organisms and systems, poor habits will lead to poor performance, sluggishness and a general state of decline. But how do we influence culture? If the "way in which things are done" is so pervasive and has such a profound effect on success, can it be influenced? The answer is yes and it will be discussed in Chapter 13 as the second principle of implementation, i.e. **fostering a supportive culture.**

Leadership could be perfect and the environment conducive to great achievements, but the quality of the soldiers lacking. **Recruitment** refers to the process of getting the right person for the job. This doesn't refer to the employment process, but rather the dynamic process of fitting employees' capabilities to job descriptions. As such it is also not an implementation process *per se*, nor is it a Human Resources function in business; it is a normal part of line management, but as such it is an important principle of implementation.

The three principles of implementation are summarised in Figure 60.
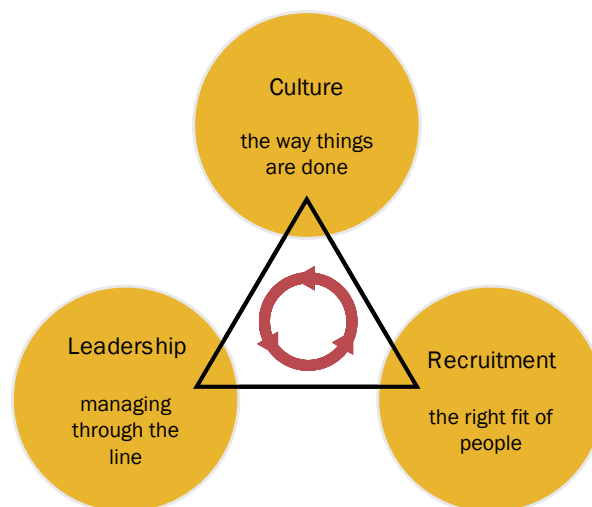
Figure 60: *The three principles of implementation*

These principles refer to three core "states" of the organisation that will ensure success or failure.

Many theorists talk about other production factors such as finance, assets and systems. These factors are not in the conceptual domain and are not core to success on the level of strategic thinking. It is no doubt important to have the right assets, investments and even environment and opportunities, but these are **tactical** elements, on the next level of strategy. The basic approach is that a system, on the first level, consists of leadership, culture and people - prerequisites for successful strategy implementation. But is this enough? There is one more aspect to consider.

3. CAPACITY TO CHANGE

Assuming that the strategic elements mentioned above are in place, we still need to consider if the organisation has the capacity to change. This means that we need to answer two critical questions:

1. Do our people have the capacity to change? The implementation of strategy will require **changed behaviour**. Are people ready to modify their daily routine to implement the strategy?
2. Do our processes, systems, procedures, etc. have the capacity to support the implementation?

We can summarise these two points as **emotional** and **systemic** readiness for implementation and these are depicted in Figure 61.
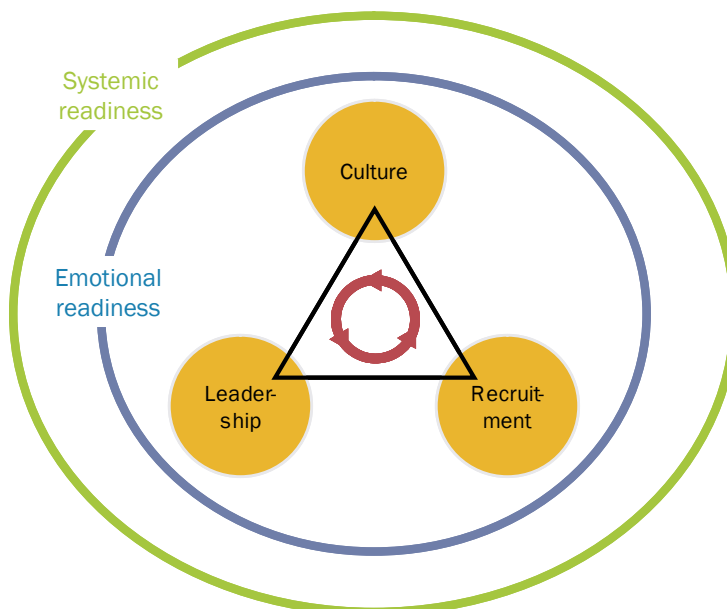
Figure 61: *The principles of implementation and readiness*

These elements need to be gauged and managed. We discuss this process in Chapter 15.

4.   INITIATING PROGRAMME MANAGEMENT

In a certain sense, if strategy implementation is to be described, it would amount to nothing more than:

- action plans;
- patterns of decisions; and
- relationships

that need to be managed, while the strategies are implemented (Harrison, 2003, p. 20). We want to reiterate that this implementation happens through the line at the various units that normally deal with the aspects that require change. The role of programme management should be limited to a certain level of involvement in and co-ordination of the three aspects mentioned above, i.e. answering the following questions:

- Do the various action plans of disparate units hang together in a sensible way?
- Are decisions enabled at the right time and place (and are they taken when required) in such a fashion that the overall strategic programme goes forward?
- Are all the relationships in the organisation and with external stakeholders continuously healthy and conducive to a positive environment for the execution of the strategy?

In order to get the ball rolling, we often ask the thinking team (that developed the specific strategy) to write the first rough draft of key implementation steps during the strategic session.

4.1 The key implementation steps

The purpose of developing the key implementation steps during the strategic session is two-fold:

- The team involved in developing the strategic themes has the opportunity to articulate the details of the strategy to ensure that during the implementation process the core reasoning behind that theme is not lost; and
- Participants are also asked to develop the implementation steps over three distinct time periods, usually short term (3-6 months), medium term (6-24 months) and long term (2-5 years). (The specific time periods are not absolute, although consensus on the time periods should be achieved.) By doing this, the long-term output for each strategy is articulated, i.e. the "bigger picture". The detailed implementation plan can then be monitored against these overall goals to ensure that we are moving in the right direction. This also serves as a motivator, because people know what they are working towards.[12]

In addition, an initial sponsor for each strategic theme is assigned during the session. This sponsor must be in the room and is responsible for driving the initial implementation of the assigned strategic theme. The position of the sponsor is not cast in stone, but the key principle here is that this person is responsible until such time as another sponsor is assigned (with agreement from the strategic team). The key first step is the completion of "the template of agreement" for each strategic theme.

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[12] In a more detailed version of the exercise the changes could be expressed in terms of specific areas of the organisation, according to some models, e.g. the McKinsey 7-S model. This depicts what will change in the short term, medium term and long term in the various areas of the organisation and what decisions and actions will be necessary to make that happen. Once the broad brushstrokes are agreed upon, it is possible to dig deeper into the terms of reference of each sub-strategy and ensure alignment. (The 7-S model refers to three "hard" S's - **s**ystems, **s**trategy and **s**tructure - and four "soft" S's – **s**tyle, **s**kill, **s**taff and **s**hared values (Lorenz, 2003, p. 70)).

4.2 Ensuring alignment

The sponsor and an initial project team populate the "template of agreement" and present this to the larger group at the next strategic session (or if there is time available, after a break-away at the same session). This template outlines the sub-group's thinking on specific aspects of the strategy and will ensure final alignment on the exact content of the strategic theme (see Figure 62).

Summary of strategic issue being addressed	Describe the reason for the existence of the strategic theme
Define scope and boundaries (what is excluded)	What will we do and what will we not do
Sponsor, Steercom, project manager & team members	Who are the key people that will implement this?
Opportunities to exploit Threats to monitor & address Strengths to leverage Weaknesses to overcome	Make the SWOT analysis developed previously relevant to this theme (Chapter 7) [Which opportunities must we grab, which threats / weaknesses impact on this theme and must be addressed, which strengths must we exploit?]
Perceived risks	What could go wrong if we implement / do not implement this theme?
Resources required (financial, skills, culture shift required)	What do we need to do this?
Other stakeholders / participants	Who must we also take into account?
Prerequisites for execution	What has to be in place BEFORE this theme can be implemented successfully and what can we do to ensure that this happens?
Interaction with other strategic themes and projects	How do we align this outcome with other initiatives?

Figure 62: *The template of agreement*

It is the task of the overall, or plenary, group to talk to this outline and come to an agreement that the terms of reference of the strategic theme reflect the group's intentions.

5. SUMMARY

The key obstacles to strategy implementation are therefore:

- Lack of leadership;
- An unsupportive culture;
- Ineffective recruitment;
- Lack of systemic or emotional readiness to support change; and
- Neglecting the key first steps of effective programme management – assigning responsibilities and ensuring alignment regarding intentions.

These issues will be discussed in turn in the next few chapters.

Final take-out

STRATEGY WITHOUT IMPLEMENTATION – An unimplemented strategy is a "contradiction in terms". "Strategy" consists of thinking, conceptualisation and implementation.

PRINCIPLES OF STRATEGY IMPLEMENTATION – Dynamic leadership, good habits and quality people will make or break the effort.

CAPACITY TO CHANGE – Even leadership, good habits and quality people will not facilitate change if people are not ready for it (emotional readiness) or if they don't know what to do (systemic readiness).

INITIATING PROGRAMME MANAGEMENT – Line implements, but the **programme** ensures co-ordination, enables decisions and tracks relationships.

SUMMARY – Implementation requires the line to lead, the culture to enable, the people to be motivated, and knowledge and commitment about what is required.

CHAPTER 12

LEADERSHIP

A simple guide to achieve results

Critical issues for this chapter

FROM PROGRAMMES TO PEOPLE – How do strategies get implemented?

THE ROLE OF LEADERSHIP – What is the most important climate indicator?

LEADERSHIP THROUGH THE LINE – Is leadership a top management phenomenon?

DESCRIPTIVE MODEL FOR BEHAVIOURAL RESPONSE TO LEADERSHIP – How do personal and group leadership hang together?

MEASURING LEADERSHIP – How can I easily determine if leadership is effective in my organisation?

MANAGEMENT AND LEADERSHIP – Are supervisors, managers and top management leaders?

SUMMARY – How do we pull these thoughts together?

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1. FROM PROGRAMMES TO PEOPLE

Strategy implementation receives a lot of attention from project and programme management theory, as it should. Strategies won't implement themselves, **but** neither will project plans and programmes. People will. And people must be led through the change process that strategy implementation requires. Strategies are implemented by the line, and as such line managers bear the brunt of implementation leadership.

Leadership is a well-defined and established field of study and we therefore would limit our discussion on the topic to the extent to which "leadership readiness" for strategy implementation can be established and what should be done to fix gaps.

2. THE ROLE OF LEADERSHIP

In a few climate surveys[13] that we were involved in over the years, we were able to establish the drivers of organisational climate in many different organisations. It is true that, to some extent, these drivers differ from organisation to organisation, but it is also true that in many respects the same answers were found.

In some of the early studies there were opportunities to be highly explorative in our approach. I remember one event, quite a few years ago, where the study was based on eight focus groups at various levels of an organisation with 100 000 employees. A sample of 5 000 employees were interviewed with 141 questions. A factor analysis was done on the results and, as factor analysis goes, the first factor declared a very strong one third of the variance of the organisational climate (the second factor's variance contribution dropped to 10%). All the questions in this factor related directly to employees' relationship with their supervisors. All studies that we have been involved in ever since, and everything that we have experienced and read, confirms the **pervasive importance of leadership through the line.**

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[13] Climate surveys are a common method of measuring the climate of an organisation. Some global benchmarks in highly involved studies have been established by organisations such as Hay, based on a Harvard Methodology developed in 1967 and re-normed over the years. The survey "measures a leader's effectiveness in creating a positive work environment." (Hay Group).

3.   LEADERSHIP THROUGH THE LINE

Leadership through the line has three important and distinctive elements. The interplay between these three describes most of what is necessary to understand for strategy implementation, i.e. personal leadership, group leadership and overall identity. There is also a specific **hierarchy** between the three:

- **Personal leadership** refers to the personal relationship between an employee and his direct supervisor. The supervisor provides him with encouragement, guidance and material to do the job. This seems obvious, but it is incredible to see how many failures occur on this level.

- **Group leadership** refers to the functioning of the group as a "self-guiding" organism. The leadership relationship is much broader and includes the cohesion with team members, trust, guidance and involvement of top management and opportunities for success within the group. Success is determined by **organisational** factors, i.e. to achieve successful group leadership the organisation as a whole must understand it and invest energy to improve it, across the board.

- **Overall identity** is leadership on the deepest level, a personal quest to become truly connected with the organisation, team and yourself.

The three elements follow an obvious hierarchical path. It is exceedingly difficult (though not impossible) to experience and benefit from group leadership if personal leadership is not in place, and the challenge is even greater to find a true self-connectedness with the organisation if the other two elements are not in place. It is also interesting to see the relationship between these three areas of leadership and the three realities, depicted in Figure 18. We can update Figure 18 to include leadership, as depicted in Figure 63.
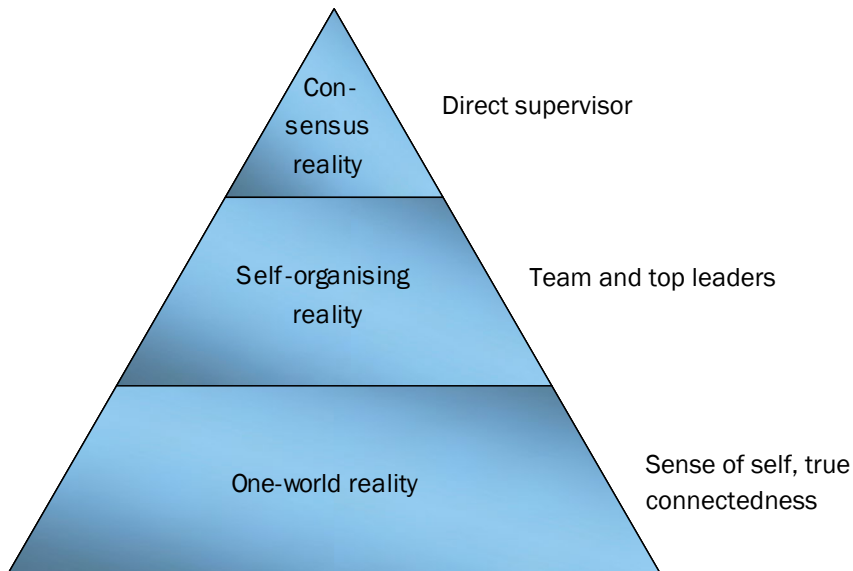
Figure 63: *Different realities and leadership*

The work that delves into especially the one-world reality becomes highly specialised and we would like to therefore concentrate on the areas of personal and group leadership and look for a descriptive model.

4. DESCRIPTIVE MODEL FOR BEHAVIOURAL RESPONSE TO LEADERSHIP

The two elements of leadership are depicted in Figure 64.
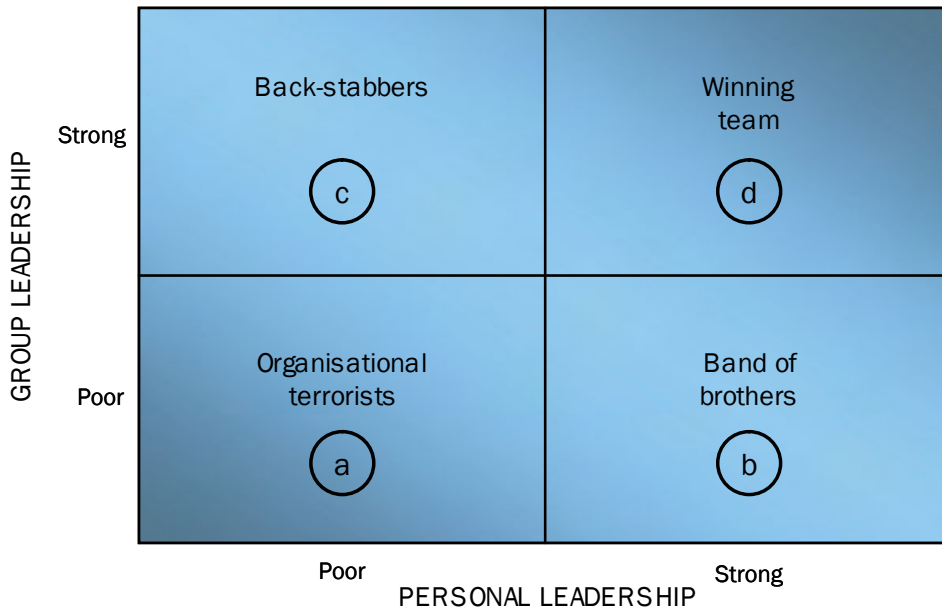
Figure 64: *Impact of personal and group leadership on behaviour*

- When leadership is poor on all levels, the behavioural response tends to be that of **organisational terrorists**. Employees who don't leave usually exhibit traits of undermining the organisation on all fronts. People in this situation will begin by passively harming the organisation through ignoring targets and deadlines, staying home unnecessarily and ignoring the stewardship role of the organisation's employees and assets. This can turn into substantively aggressive behaviour where the organisation is harmed through industrial espionage, theft and various activities that can harm the image, brand, products, markets and assets of the organisation.

- When personal leadership is strong in a specific sub-division, but employees struggle to find group guidance (i.e. they don't identify with the organisation's mission, values and top leadership), a **band of brothers** mentality sets in. On a personal level there is a lot of support and the subdivision tends to be very effective in **selective** tasks. If the challenge is very specific and short term, the group usually can get together and effectively carry out a **mission**. Overall company or organisation objectives are, however, often ignored. This behaviour is often typical of the lower echelons in an organisation and the challenge is to fix this, especially at the coal face.

- When personal leadership is weak, but group leadership strong, behaviour often turns into **back-stabbing** events. Many people inadvertently fall into this behaviour pattern when relationships with first-line supervisors turn sour, but overall identification with company ideals and top leadership is high. In a certain sense the supervisor is seen as a stumbling block and is "wished out of the way".

- Ideal behaviour is **winning team** behaviour. In the more advanced climate studies that we have been involved in, we always tried to look for elements that **bind** people together on all levels and through all the layers of diversity. No aspect is as unifying as success and faith in success. And this faith is only possible if first-line supervisors and top management lead the organisation in that together. That is leadership through the line.

5.   MEASURING LEADERSHIP

Bossidy and Charan (2002) identify 7 essential leadership behaviours:

- Know your people and your business;
- Insist on realism
- Set clear goals and priorities;
- Follow through;
- Reward the doers;
- Know yourself; and
- Expand people's capabilities.

But how do we **know** whether these behaviours are present?

In their book *First, Break all the Rules* Buckingham and Coffman (1999) describe the results of research conducted by the Gallup Organisation over a period of 25 years (from the mid-1970s onwards). The Organisation interviewed more that a million employees during this time and, through meta-analysis[14], discovered 12 questions that measure the core elements needed to attract, focus and keep *the most talented* employees. These elements are:

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission/purpose of my company make me feel like my work is important?
9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, have I talked with someone about my progress?
12. This last year, have I had opportunities at work to learn and grow?

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14 A meta-analysis is a statistical integration of dta accumulated across many different studies. As such, it provides uniquely powerful information, because it controls for measurement and sampling errors and other idiosyncracies that distort the results of individual studies (Buckingham and Coffman 1999, p. 256)

According to Buckingham and Coffman (*ibid*.), if you can create the kind of environment where employees answer positively to all 12 questions, then you will have built a great place to work. Also note that many of the questions are phrased in the extreme ("best") to make sure that the rating of questions is discriminating - much of the power therefore lies in the wording of the question. The questions about pay, benefit, senior management or organisational structure are still important, but they are equally important to every employee, good, bad and mediocre – it will not **differentiate** talented employees from the rest.

The further hypothesis is that if these questions were the best questions, then employees who answered them positively would presumably work in higher-performing departments. During 1998 the Gallup Organisation investigated the business outcomes of 24 different companies across 12 industries (more than 2500 business units were included in the study). Business outcomes consisted of productivity, profitability, employee retention and customer satisfaction. Through meta-analysis it was discovered that:

- Employees who responded more positively to the twelve questions worked in business units with higher levels of productivity, profit, retention and customer satisfaction; and

- Employees in different business units in the same company rated the questions differently. Perceptions were therefore created by the employee's immediate supervisor – the manager is therefore the critical link in building a strong workplace.

Based on the meta-analysis, the most powerful questions are those with the strongest links to the most business outcomes. These were:

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?

These questions therefore also form the "base camp" and "camp 1" of the hierarchical path of employee satisfaction (see Figure 65).

HIERARCHY	ELEMENTS
Base Camp: What do I get?	Do I know what is expected of me at work?
	Do I have the materials and equipment I need to do my work right?
Camp 1: What do I give?	At work, do I have the opportunity to do what I do best every day?
	In the last seven days, have I received recognition or praise for good work?
	Does my supervisor, or someone at work, seem to care about me as a? person
	Is there someone at work who encourages my development?
Camp 2: Do I belong?	At work, do my opinions seem to count?
	Does the mission/purpose of my company make me feel like my work is important?
	Are my co-workers committed to doing quality work?
	Do I have a best friend at work?
Camp 3: How can we grow?	In the last six months, have I talked with someone about my progress?
	This last year, have I had opportunities at work to learn and grow?

Figure 65: *Hierarchy of employee satisfaction*

In addition, Buckingham and Coffman (*op. cit.,* p. 57) highlighted a key insight of great leaders – capitalise on the uniqueness of each employee:

People don't change that much.

Don't waste time trying to put in what was left out.

Try to draw out what was left in.

That is hard enough.

This is enabled through the so-called "Four Keys" of great managers (*op. cit.,* p. 67):

1. When selecting someone, they **select for talent** … not simply experience, intelligence or determination.
2. When setting expectations, they **define the right outcomes** … not the right steps.
3. When motivating someone, they **focus on strengths** … not on weaknesses.
4. When developing someone, they help them find **the right fit** … not simply the next rung on the ladder.

(See the case studies on the utility and the paper products manufacturer in Chapter 16 for examples of the application of the model.)

6. MANAGEMENT AND LEADERSHIP

A lot has been said about the difference between management and leadership. Levicki (2003) summarises this debate (relating to skills) Figure 66.
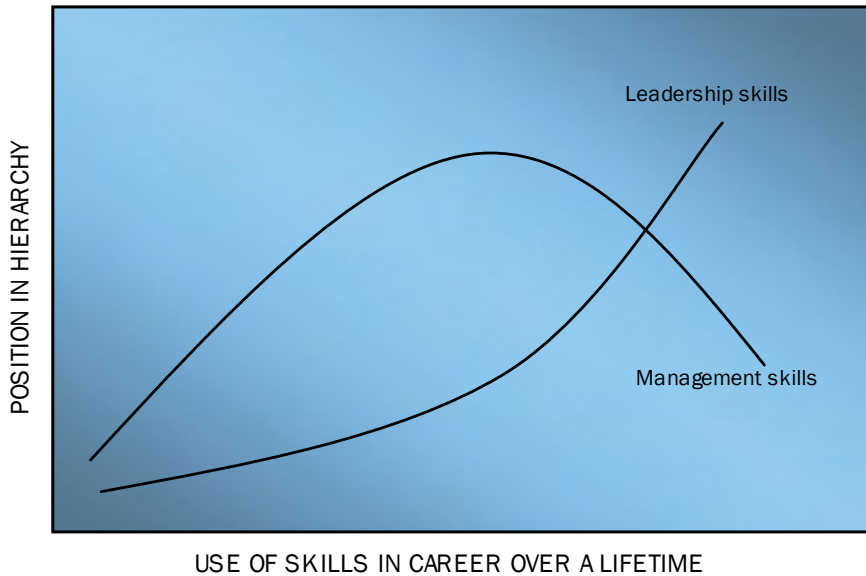
Figure 66: *Management and leadership*

The debate has two opposite sides. We would agree that management/leadership skills become more involved and complex and more related to the one-world reality challenge (as depicted in Figure 18), as the position in the hierarchy rises. At the same time, we would urge organisations to see supervisors on all levels as **leaders**.

7. SUMMARY

Understand that each person has a unique contribution to make to the organisation. The core of this relates to whether people know what is expected of them, and whether they receive the right equipment, opportunities, recognition, care and encouragement to do this based on their unique competencies.

Final take-out

FROM PROGRAMMES TO PEOPLE – Programmes can't implement strategies, people do.

THE ROLE OF LEADERSHIP – Leadership is the most important indicator of climate – always.

LEADERSHIP THROUGH THE LINE – Leadership happens through the line – from first line managers all the way to the top.

DESCRIPTIVE MODEL FOR BEHAVIOURAL RESPONSE TO LEADERSHIP – Poor leadership will create organisational terrorists, splinter groups and back-stabbers in the organisation. It is **always** bad for the business.

MEASURING LEADERSHIP – Concentrate on the 12 tested questions that test basic requirements, recognition, belonging and development.

MANAGEMENT AND LEADERSHIP – All managers should be leaders – at all levels.

SUMMARY – Leaders are the stewards of the organisation's position in the environment, its relationship with the markets and the development of assets and people. Poor leadership **will destroy you.**

CHAPTER 13

CULTURE

The army's habits and their pervasive effect

Critical issues for this chapter
THE COMPLEXITY OF CULTURE – How complex is the phenomenon?
CONTROL THROUGH CULTURE – How easily can we influence and "use" culture?
TYPES OF CULTURE – Can cultural "types" be identified?
THE DRIVERS OF CULTURE – What useful drivers of culture can we identify?
APPLYING THE MODEL – Can the model be applied in practical situations?
SUMMARY – How do we pull these thoughts together?

1. THE COMPLEXITY OF CULTURE

Habits are nothing more than entrenched behaviour. They are recognisable in individuals, but also in groups, businesses, countries, etc. They are, in fact, a dimension of any system. Various aspects of a system influence and shape these habits, including history, strategy, leadership and assets, to the extent that a complete algorithm which could describe habits or culture formation still needs to be developed.

If culture is a complex phenomenon, it could be asked whether it is worthwhile bothering about it. Couldn't we accept culture as a given and just get on with strategy implementation? In order to answer this question, we need to establish first whether culture can, in fact, at least be measured.

The description and measurement of culture became a great "fad" about two decades ago and a lot of work was done to understand this phenomenon better. Mintzberg (2000) talks about culture in an interesting way and has a less than flattering jab at strategic planners' use of the term. He writes about the failures of strategic planning and strategic planners' responses to clear evidence of these failures. When Japanese penetration decimated the American markets, planners grabbed at culture and immediately developed a further four-step process for the planning cycle, i.e. definition, organisation, assessment and focus:

> It was all so simple, making this 'a part of the corporation's strategic planning process'. All it needed was lots of resources (especially for the consultants who concocted these procedures) and a blind eye to how it violated the natural functioning of the organisation. Somehow, imagining that you could sit down and calculate coalitions seems silly enough, but to take culture – so deeply rooted in the history and traditions of an organisation, and, for the Japanese at least, in the long evolution of a society – and work it into the pat procedures of the planning cycle seems extraordinarily naïve. One is hard pressed to imagine the Japanese

quaking in their geisha houses at the thought of Americans doing such planning. But then again, this probably never amounted to a marginal distraction in any event. (Mintzberg, 2000, pp. 144-145)

In spite of Mintzberg's cynicism a lot of work has obviously been done on the subject. We would agree with the sentiment about the impossibility of a "quick and dirty" approach, where culture is "measured and corrected". But at the same time there can be no doubt about the pervasive effect that "the way of doing things" has on implementation. If it is complex and important, but difficult to change or "use", what value could it have?

2.   CONTROL THROUGH CULTURE

Sanchez and Heene (2004, p. 99) talk about "cultural control", where the norms and values of behaviour are used as a cultural control mechanism. This is useful only if the norms and values are well established and support the strategy. In all the work we have done, we have often found a specific deficiency, deeply rooted in culture, which makes it difficult to "use" positive values, whilst change programmes are running to root out negative ones.

In the case of one parastatal in South Africa their positive values included a huge shift to learning (the organisation produced hundreds of MBAs and doctorates in the eighties and nineties) and a great emphasis on technical superiority. On the deficiency side, a culture of non-implementation of strategy was adopted (typically the organisation became more a society of "thinkers", rather than doers, with lots of philosophies and dreams, but little business development). During the transformation in South Africa most of the top management in the organisation was replaced and some of the emphasis on technical superiority was replaced with a greater focus on people, but incredibly the strategic inertia remained for many years and the culture of "dreaming" rather than doing persisted.

This problem became so pervasive that for many years even the employees, for whom transformation should have been a positive thing, were traumatised by the strategic inertia of the business. Was this a problem caused by the new leaders? Or is culture such a deep-rooted phenomenon that a type of organisational "osmosis" transfers it from one generation to the next? Apparently it does. If it is pervasive, then we should measure it and contemplate the effects of culture – the way in which things are done – on the implementation of strategy. And although not a control mechanism as such, we believe that we can use culture in implementation and to facilitate change management, both to identify values that will be supportive and values that have to be rooted out. In order to do this we have to establish "types" of culture.

3.   TYPES OF CULTURE

Handy (1993), a decade ago, provided one of the most enduring accounts of types of culture, i.e. power, role, task and person cultures.

- **Power cultures** exist predominantly near the entrepreneurial "birth" of an organisation, where power is still concentrated, decision-making centralised and "charismatic" leadership often still persists at the centre.
- **Role cultures** evolve after long periods of stabilisation in an organisation where roles, procedures and often bureaucratic red tape take over. Decision-making is typically

procedure-bound and often still highly centralised.

- **Task cultures** become established when organisations are faced with many changes, both internally and externally, and successful task teams tackle these changes proactively. As new tasks are performed successfully, a task-orientated way of doing things emerges. The value of project and programme management to complete organisational interventions is understood.

- **Person cultures** entail an evolution to a society where the existence of the organisation is seen more as a benefit for the employees than anything else. The organisation begins to place a higher value on the wellness of employees than bottom line performance.

Handy's descriptions are useful, but the mere fact that various other models have evolved over time suggests that even this enduring approach is not definitive. Harrison (2003, p.99-100) suggests four other types, i.e. craftsmen, builders, pioneers, salesmen:

- **Craftsmen** organisations are quality and pride driven. The major advantage is excellently engineered products, but disadvantages are over-engineering and over-pricing when they become *tinkerers.*

- **Builder** organisations are growth and risk driven. The major advantages are growth and acquisition, but these organisations can also become *imperialist*, with high debt, too many unrelated businesses and a neglect of the original core and successful business.

- **Pioneer** organisations are driven by innovation and "new"-ness. Advantages are design and flexibility, but sometimes these organisations become *escapist,* with impractical inventions of limited customer value.

- **Salesmen** organisations are driven by brand, distribution and aggressive advertising. The major advantage is high turnover, but when low-value products are marketed they tend to become *drifters*.

There is obviously a plethora of these typologies, all theoretically useful, but how can they be applied? Hitt *et al.* maintain that:

> Changing a firm's organisational culture is more difficult than maintaining it, but effective strategic leaders recognise when change is needed. Incremental changes to the firm's culture typically are used to implement strategies. More significant, and sometimes even radical, changes to organisational culture are used to support the selection of strategies that differ from those the firm has been implementing historically. (Hitt *et al.,* 2003, p. 399)

We will propose a typology that enables the **use** of cultural measurement in strategy implementation, based on the **drivers** of culture.

4. THE DRIVERS OF CULTURE

Our independent research has once again brought us back to the IME model (Figure 4). It seems as if an organisation's way of doing things is often determined by the **relationships** internally and with the external environment. This work was started by Sandra Gertenbach in her thesis "The development of a construct for the description of corporate culture and its determinants" (1992).

Gertenbach's work was based on 148 questions, with nearly 4000 final usable respondents, and a correspondence and factor analysis of the results. Incredibly, the work proved that culture is determined by two major drivers, i.e.:

- **Team dynamics,** which describe the intergroup and intragroup behaviour of the business. This behaviour can be typified by strong internal competition, where individuals, or small groups at the most, are rewarded for personal performance, whilst the overarching objectives of the business or larger team play a smaller role. Yet it is true that, even today, with the plethora of work that has been done on team dynamics, wellness and performance measurement that links to balanced scorecard and in turn to strategy, we still struggle to enable, enhance and reward group behaviour.

- **Environmental pressures** describe the extent of external orientation (such as towards the market and external stakeholders of the organisation), especially external pressures to perform. These pressures are typically lower in bureaucratic (often government-type) organisations and sadly often in the lower echelons of many companies, where employees are not exposed to and rewarded for external success.

These two drivers allowed the study to develop a simple model that proved quite useful to us over the years. The model is summarised in Figure 67.
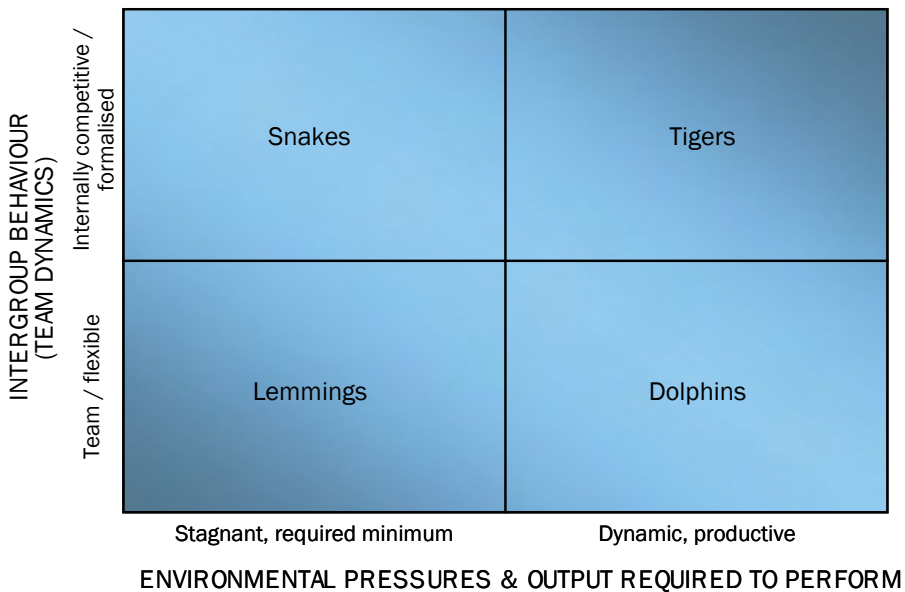
Figure 67: *Model of culture behaviours*

The model identifies four cultures:

- **Lemmings,** which describe a highly cohesive, but externally disabled culture (see box on Lemmings). Large groups of people that are traumatised by the external environment and kept in the dark by leaders typically exhibit Lemming-like traits. In businesses

lower-echelon employees who are underpaid and overworked usually tend to display this behaviour. The groups stick together within an organisation, but support for the organisation's ideals (survival) is not forthcoming. In fact, through labour movements and unrest, management often see these groups' behaviours as self-destructive, not acknowledging management's own contribution to the situation that led to this culture. Lemmings are strongly cohesive, but could be, in organisational terms, highly destructive for the business. Lemmings are often involved in routine tasks in low-innovation environments with limited contact with organisational leaders and they experience no direct link between performance and rewards.

Lemmings

Lemming is the common name for a number of small arctic rodents comprising the genus *Lemmus*, closely related to the meadow mouse, and known for mass migrations which inevitably lead to self-destruction in the sea. True lemmings are small, stout-bodied animals, about five inches long, with very short tails, averaging about three quarters of an inch in length. They are tan above, and slate grey, mixed with tan below. The animals live in extensive burrows, near water, in the northernmost portions of the world, and feed on vegetation. *At periodic intervals, when overpopulation of lemmings has led to a scarcity of food, hundreds, and sometimes thousands, of the animals band together and migrate in search of food. They start in the direction of lower elevation, and, once having chosen their direction, do not swerve from their path. The lemmings swim lakes and rivers several miles in width, and cross over mountains, eating all vegetation in their path. Eventually they reach the sea; attempting to swim it as they would a river, they are drowned.*

(Morse, 1964, p. 5567)

Culver Service

- **Snakes** (puff adders) are the true bureaucrats of organisations. They literally each look after their own hole and will bite anything and anybody that steps on them. They are not concerned about the group's interests nor the organisation's success. They work in highly formalised structures where "management by blame" is standard practice. They have a stable, but extremely sluggish relationship with the external environment and display a highly uncaring attitude. They are often seen as lazy when confronted by tasks other than what is routinely known to them. They don't like change (see box on snakes – puff adders).

Snakes – Puff adders

Puff adders make splendid rat-traps. A veld-rat was observed scurrying along a grass track; within seconds there was a thud, followed by anguished squeaks which soon ended. On investigation, it was noticed that the rat's tail was protruding from the mouth of the puff adder, which had cunningly parked on the rodent track to snap up the ones that never look where they are going. The snake deposited the rat and inspected it, possibly wondering if the speedy catch was palatable. A second puff-adder appeared on the path and seized the rear-end of the rat and started swallowing, much to the chagrin of the first puff adder, which quickly grabbed the rat's head and commenced gulping towards its competitor. As inter-nasal distance narrowed and neither snake was prepared to yield, their respective snouts soon met at mid-body. Number one gave an enormous gulp, encompassing most of his opponent's head. An intense struggle followed but gradually the challenger was painfully persuaded to follow the rat down a very different path.

(Mitchell, 2002)

- **Tigers** are usually closer to management in many organisations, if not part of the management team specifically. They are highly competitive amongst each other and are often the hard hitting, rising stars of organisations who contribute with energy, enthusiasm and innovation, but destroy with too much task orientation, aggression and internal competition. They understand the environment and external pressures very well, are often "experienced hires" and usually believe that the organisation of which they are part is not clever in its dealings with this environment. They are often involved in special-skill professional tasks, such as accounting and engineering, and their rewards are more often linked to performance than snakes and especially lemmings.

- **Dolphin** behaviour is often displayed by respected leaders of successful companies. The challenge is for this behaviour to permeate organisations. Interaction with the environment is not only clear, but dynamic and continuous, with rewards and promotions that are directly linked to success in the external environment as well as successful group delivery. Dolphins are the architects of the patterned, wave-like behaviour of the new science as described in Figure 21. They work together, hunt together and play together with obvious ease and, in organised "packs", quickly become the masters of their environment.

5. APPLYING THE MODEL

Bossidy and Charan (2002) talk about organisational "software" (beliefs and behaviours), as opposed to the "hardware" (strategy and structure). They maintain that cultural change efforts fail because they are not linked to improving the business's outcomes. We cannot agree more and observed many case studies where cultural change, merely for the sake of change (or the consultants who sold the programme!), failed. Cultural change gets real when your aim is execution – we endeavour to change behaviour specifically to change results, which means that you:

- Should tell people what results you are looking for;
- Discuss with them how these results will be achieved;

- Reward achievement; and
- Act if they don't achieve it (provide additional coaching, give them other jobs or, in the final instance, let them go).

They also address a classic problem with culture change when they say:

...we don't think ourselves into a new way of acting, but act ourselves into a new way of thinking. (*op. cit.,* p.89)

The model was applied in the case studies of both the utility and the food production company. As example, the results for the utility are depicted in Figure 68 against a reference of delegates in previous workshops.
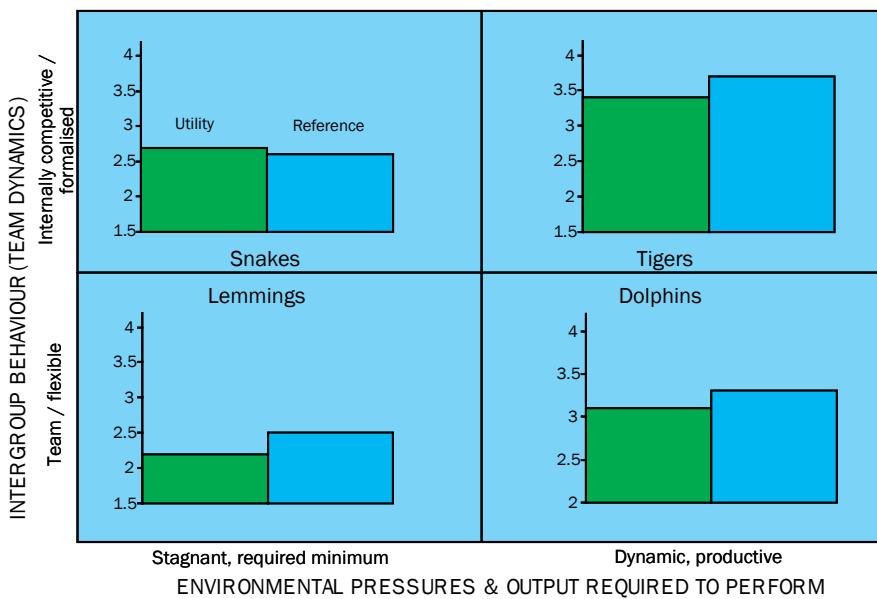
Figure 68: *The utility's culture*

The culture of the utility is not yet conducive to optimal behaviour. On a positive note, lemming behaviour is lower than the reference. Snake behaviour is still too high, however, while tiger and dolphin behaviour is too low relative to the reference. Yet this scenario is quite typical for a business in this situation (see case study for more detail) and will be addressed as the business progresses on the path to commercialisation. It is critical to take note of this issue, however, and address it at relevant times during the commercialisation process.

6. SUMMARY

Culture is complex, but this doesn't mean that we shouldn't take note of it. It is difficult to control and can't be dictated nor really "decided" upon - management cannot "pick" a culture today and install it tomorrow. Management scientists have developed many typologies, but our

research has found that group behaviour and environmental pressures are the best indicators. These indicators must be measured, and if changes in culture are required, **leaders** must initiate the behaviour by **example**, and the organisation will follow.

If leadership and culture are in place, we still need to consider recruitment. Do we have the right people in jobs? We will consider that in the next chapter.

Final take-out

THE COMPLEXITY OF CULTURE – Culture is a highly complex and deep-rooted phenomenon, yet this doesn't mean that it should be ignored.

CONTROL THROUGH CULTURE – Cultural control is extremely difficult. Culture dictates rather than being dictated to. But its pervasiveness means that measurement and consideration of it are essential.

TYPES OF CULTURE – Many management scientists have identified culture "types". The power, role, task and person typology is one of the most enduring.

THE DRIVERS OF CULTURE – The most important drivers of culture is inter- and intragroup behaviour and the relationship with the environment.

APPLYING THE MODEL – "We don't think ourselves into a new way of acting, but act ourselves into a new way of thinking" (Bossidy and Charan, 2002, p. 89).

SUMMARY – Culture can only be changed by getting leadership to act differently. Otherwise nothing will change.

CHAPTER 14

RECRUITMENT

The right soldier for the job

Critical issues for this chapter

THE DETERMINANTS OF SUCCESSFUL STAFFING – What determines successful staffing?

THE IMPORTANCE OF THE RIGHT PERSON FOR THE JOB – How important are people?

THE RIGHT PERSON FOR THE JOB – What are the basic employment criteria?

PERFORMANCE – How do performance measures relate to employment criteria?

SUMMARY – How do we pull these thoughts together?

1. THE DETERMINANTS OF SUCCESSFUL STAFFING

Once we've established the leadership readiness of the organisation and asked ourselves whether the way in which things are done will inhibit or facilitate the success of strategy implementation, we are ready for the third question – do we have the right people to fight the battle with?

Tracy (2002, p. 130) describes a simple but effective process to get the right team, i.e. recruit correctly, train and manage well. He quotes the rule: "Hire in haste, repent at leisure".

What are the important elements to look for when recruiting? This question, on a very basic level, is determined by the:

- Nature of the battle;
- Depth of knowledge of the soldier;
- Experience of the soldier; and
- The motivation of the soldier.

The question is therefore simple: do we have the right man for the job, has he been trained well, has he had the opportunity to use that training and does he actually want to fight? But maybe we first need to look at the critical importance of people.

2. THE IMPORTANCE OF THE RIGHT PERSON FOR THE JOB

Boulton *et al.* (2002) highlighted the importance of employees in their value dynamic framework (depicted in Figure 69) - on par with other value creating elements in the organisation.

They illustrated in a subsequent study how PE-ratios differ for different industries, based on the usage of specific assets (Figure 70). It is clear that intellectual property (people) is becoming more and more important.

Figure 69: *Boulton's value dynamics framework*
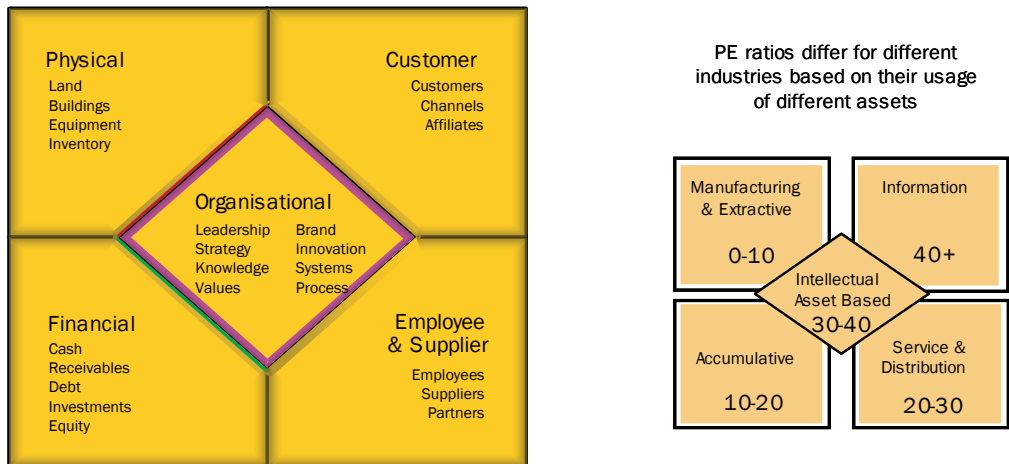
Figure 70: *PE ratios in different industries*

One interesting case study that they quote is from Starbucks:

> Starbucks Corporation has used its employee assets to achieve phenomenal market penetration almost overnight. How fast is Starbucks growing? 'I don't know for sure' quipped one comedian, 'but I do know they just opened one in my living room'... 'It's an ironic fact', says Howard Schultz, the company's chairman and chief executive officer, 'that while retail and restaurant businesses live or die on customer service,

their employees have among the lowest salaries and worst benefits of any industry. These people are not only the heart and soul but also the public face of the company. Every dollar earned passes through their hands ...' The answer is obvious – at least to Schultz. He has made Starbucks the restaurant and retail employer of choice ... The company's approach to maximising its employee assets is paying off in an employee turnover rate that is far below that of comparable retailers. (Boulton *et al.,* 2002, pp. 37-38)

In fact, it is not only "human capital" that plays a role in the impact of intangible assets on shareholder value, as depicted in Figure 71, but it is quite obvious that "humans" play a role in all the relationships depicted in the diagram.
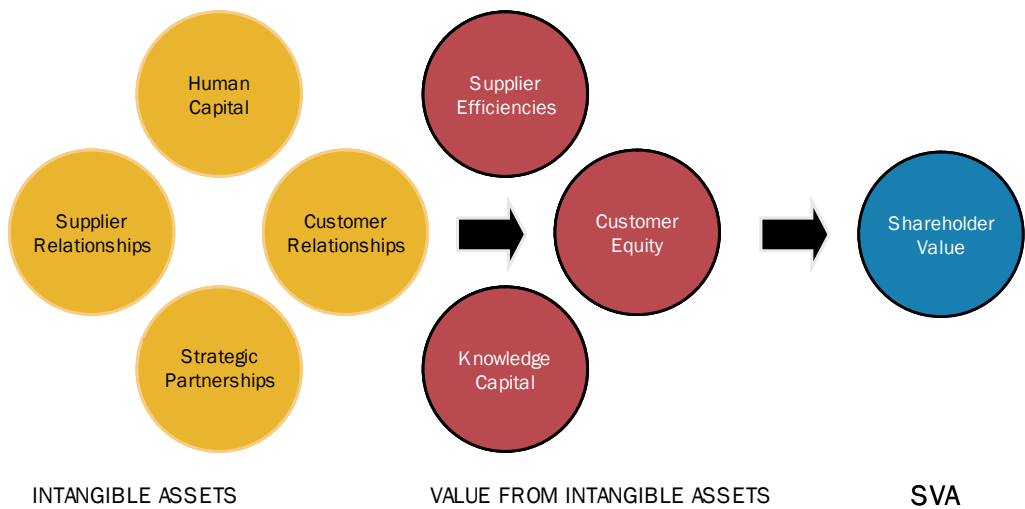
Figure 71: *Intangible assets and shareholder value*

The war for talent, to support the revolution towards the new economy, has also changed significantly with smaller, more entrepreneurial companies, often still managed by their founders, drawing a bigger percentage of the top talent. Why is that? Because companies closer to their entrepreneurial core see this as the most important "land-grab" of the 21st century (post-physical land and "electronic" land, where entrepreneurs used to focus their attention – Figure 72).
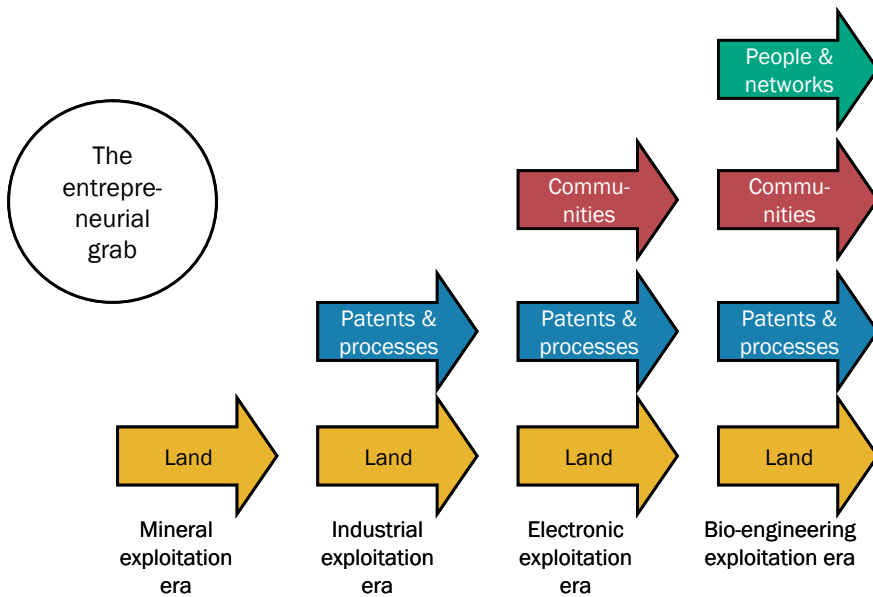
Figure 72: *From land grab to people and networks*

But how do we ensure that we find the right person for the job?

3.   THE RIGHT PERSON FOR THE JOB

We need to look at the four basic criteria in a little more detail:

- **The intrinsic nature of the job** is often a given. Is it possible to appoint an economics professor in the job of a street sweeper and expect him to be happy even if you pay him well? Or how about a human rights lawyer as executioner? The intrinsic nature of what needs to be accomplished must be considered. This is a difficult terrain and HR specialists will warn the strategy implementer to tread carefully. After all, we don't want to "categorise" people, nor fall victim to our inherent biases. But we must consider "the right person for the job" carefully in some logical fashion.

- **The depth of knowledge of the applicant** is the prior training that was received. Although we strongly believe in continuous training, it is not always possible to prepare somebody for the job "on the job". In some cases established professional knowledge, obtained prior to the challenge of what is expected, is necessary.

- **The level of experience of the applicant**, just like knowledge, can be obtained "on the job", but sometimes an "experienced hire" is required.

- **The motivation of the applicant** refers directly to the incumbent's willingness to contribute to the value and values of the organisation.

Once these factors are in place and the recruitment for the strategy execution done, the next step would be to track the incumbent's performance.

4. PERFORMANCE

When tracking performance, what should be considered? There is in fact no reason why the exact same elements that are considered in recruitment should not be tracked, as illustrated in Figure 73.
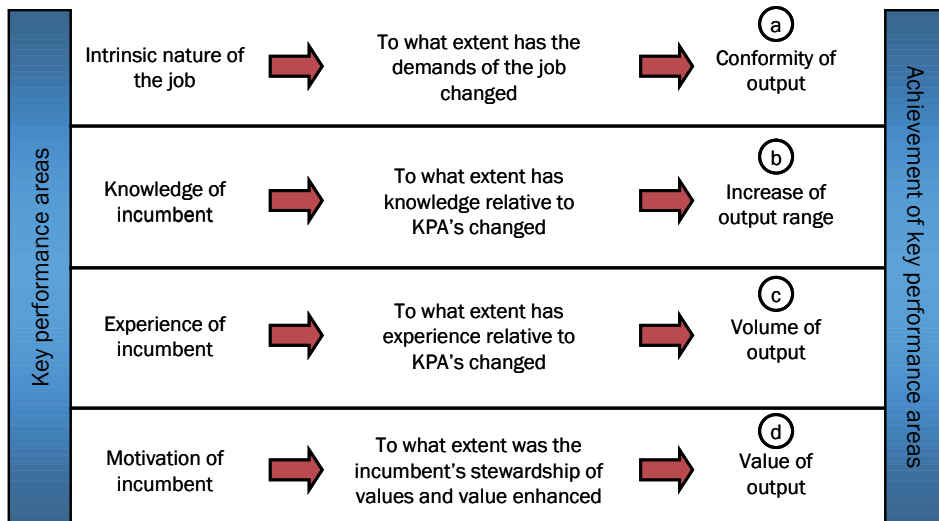
Figure 73: *Performance relating to recruitment criteria*

- a. **Intrinsic nature of the job**: The incumbent's first order of battle is to understand what is required and to deliver, but also, over time, to be willing to change this "conformity" as new challenges arise. Once again, the strategy implementer might run foul of standard human resource theory, which states that it could be seen as unfair labour practice to change the requirements of the job. We believe that a "job requirement" of many key positions, especially through the line where we want to make strategy work at middle management and first-line supervisor level, should be a willingness to change job requirements in step with a change in environment. This is real **conformity of output.**
- b. **Knowledge of incumbent**: The knowledge challenge is not one of knowledge for knowledge's sake. The knowledge that is brought to the equation and the growth of knowledge that the organisation invests in should, in time, **increase the range of output**. This means that the incumbent should, proactively, begin to enhance and grow the value of the job. This is real intellectual capital at work.
- c. **Experience of the incumbent**: Many employees imagine that merely being knowledgeable and having the ability to conceptualise is enough. The job's value and the incumbent's contribution are enhanced by actually doing things, the **volume of output**.

    d.   **Motivation of the incumbent**: The incumbent's final goal is stewardship of the value created by the organisation for its stakeholders, underpinned by the values of the organisation. The **value of output** relative to the other three items should therefore be tracked.

We believe that it is dangerous to merely look at key performance areas, as if we "rate" the performance parameters of a machine. The employee is a holistic being, capable of adapting to the changing requirements of the external environment, expanding her contribution through knowledge and experience and through these actions increasing the value of the organisation. Rewards should then be concomitant to this increase in value.

5. SUMMARY

Successful staffing and performance management are inseparable. The nature of the job is the first criterion, but over time the incumbent should enhance the nature of the job. The incumbent must be knowledgeable, but over time contribute to the position with new knowledge and therefore increase the output range. As the volume of output grows, experience grows and finally the value of the contribution. This dynamic nature of staffing and performance management is often seen too statically.

Once we've addressed leadership, habits and staffing, we are ready to ask the final question: are our people ready for change and do they know how to change? We will approach these questions in the next chapter.

Final take-out

THE DETERMINANTS OF SUCCESSFUL STAFFING – Successful staffing is determined by the nature of the position, knowledge of the applicant, experience and motivation.

THE IMPORTANCE OF THE RIGHT PERSON FOR THE JOB – In the post-electronic era, bio-diversity, people and networks are the most important assets.

THE RIGHT PERSON FOR THE JOB – The basic criteria (the intrinsic nature of the position, knowledge, experience and motivation) must be in place before an appointment is made.

PERFORMANCE – Performance is not just measured as output against expectation, but increase in the range of outputs over time, increased volume and finally increased value.

SUMMARY – Staffing and performance measurement are dynamic measures, and should be treated as such.

CHAPTER 15

THE IMPLEMENTATION PROCESS

Final determination of battle readiness

Critical issues for this chapter

CHANGE – What is the role of change in strategy?

CHANGING PEOPLE AND PROCESSES – What are the core change criteria?

THE BALANCED SCORECARD AND IMPLEMENTATION – What are the core elements in building the balanced scorecard?

SUMMARY – How do we pull these thoughts together?

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1. CHANGE

Strategy implementation is about change. Nothing more and nothing less. If nothing changes it clearly means that no strategy is implemented. Schein says:

> Rarely is the goal of a helping process to maintain the status quo. Even if no great external changes will result, sometimes it is a significant change when a client accepts a situation and redefines it inside his own head. But one cannot conceive of human processes without conceiving of change, either evolutionary, or managed. (Schein, 1987, p. 92)

It is also now, when we want to understand the dynamic of change, that the pervasive importance of our approach to strategy as **consultative thinking** makes the most sense. According to Wheatley:

> From becoming attuned to this dynamic, I've come to believe that both individual and organisational change start from the same place. People need to explore an issue sufficiently to *decide whether new meaning is available and desirable.* They will change only if they believe that a new insight, a new idea, or a new form helps them become more of who they are. If the work of change is at the level of an entire organisation or community, then the search for new meaning must be done as a collective inquiry. (Wheatley, 1999, p. 148)

In this sense our final strategic thinking, development and implementation "argument" hangs together:

> Strategy as consultative thinking only makes sense if it seeks to satisfy acceptable and smart objectives (see Figure 11). If it then specifically targets and exploits the performance, wellness and loyalty of internal and external relationships, systematically and with maximum intelligence, new strategies can be developed. If the organisation is further supplied with proper leadership, has a way of doing things that supports the implementation, and the right people are deployed for the implementation, changed processes and people will ensure the implementation of the strategies.

2.   CHANGING PEOPLE AND PROCESSES

According to Bossidy and Charan:

The heart of the working of a business is how the three processes of people, strategy and operations link together. Leaders need to master the individual processes and the way they work together as a whole. These processes are the **foundation for the discipline of execution**, at the centre of conceiving and executing a strategy – they are the **differentiation** between you and your competitors. (Bossidy and Charan, 2002, p. 264)

- A robust people process:
    o Evaluates individuals accurately and in depth and deals with non-performers;
    o Provides a framework for identifying and developing the leadership talent the organisation will need to execute its strategies down the road; and
    o Fills the leadership pipeline.

    The final test of a people process is how well it distinguishes between performers and non-performers – and how well leaders handle the sometimes painful actions they have to take.

- The strategy process is what a lot of this book is about – how do we decide where to take the business?

- The operations process covers the specifics on a short-term scale - it provides the path for the people:
    o The operational plan describes how the strategy will be implemented over the next year;
    o It is vital that everyone accountable for the execution of the plan is involved in developing it. It must have clear, realistic targets, action plans (including making trade-offs between short-term objectives and long-term goals) and contingency plans; and
    o Get sign-off from those accountable, including how implementation will be tracked to facilitate corrective actions if required.

The ability to execute is, however, influenced by the capacity of the organisation's people and processes to change when required[15]:

- People's capacity to change is determined by whether the organisation has an action-oriented culture, change management is taken seriously, the implementation is well-resourced (i.t.o. people) and whether sufficient knowledge and skills are available or are developed; and

- Process capacity to change is determined by the ability to effectively and accurately communicate change, consequences for failure are clear and implemented when necessary, progress is evaluated and adjustments made, and implementation is happening right through the organisation.

The interpretation of these drivers is depicted in Figure 74.

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[15] Model developed by Leanne van der Westhuizen at the University of Stellenbosch Business School.
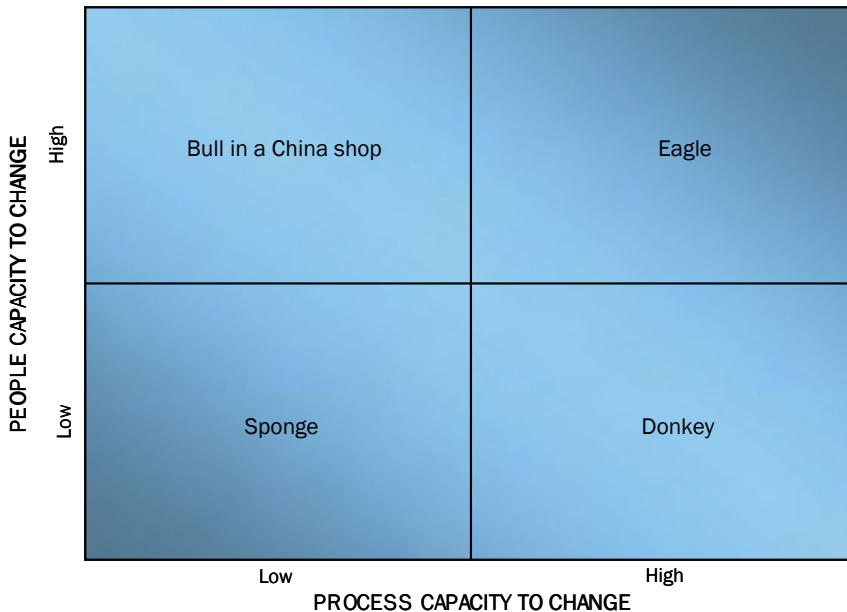
Figure 74: *People and process capacity to change*

- **Sponge**: The individual does not want to or is not enabled to change, and the processes are not supportive of change. The person does not contribute to implementation of the strategy, thereby sucking the life from the organisation. Sponges are passive and will only react if moisture is brought to them. They will also not release this moisture, except if force is applied. They have neither the will nor the technology to change.

- **Donkey**: Processes support change but the individual doesn't. The individual is forced along, but shows no initiative. Donkeys are also passive, but they do possess the technology to change. They can walk, pull and carry a load, but are often clearly unwilling to do this. Unfortunately, due to their unwillingness to change they have to be cajoled, enticed and threatened, thereby weakening the organisation and putting strategy implementation in jeopardy.

- **Bull in a china shop**: The individual is ready to go, but the organisation's processes do not support this. This results in uncoordinated execution in a rigid environment. The bull is on the run and looks almost as if he is enjoying breaking things. By the time an individual has reached this stage, he is desperate for change, any change, and will – if the organisation doesn't develop solid change processes - become destructive.

- **Eagle**: Both people and processes have the capacity to change. The implementation of the strategy has the opportunity to soar unhindered. This is an ideal state and organisations that want to achieve strategic change **must** invest in change management programmes to create people with the will to soar and develop the processes and learning that will give people the wings with which to do this.

3.   THE BALANCED SCORECARD AND IMPLEMENTATION

3.1 Building the scorecard

In Chapter 2 we introduced Kaplan and Norton's Balanced Scorecard and strategy maps. The purpose is to articulate and communicate the strategy of the business, while aligning individual, organisational and cross-departmental activities and performance with the strategy through a series of cause-and-effect relationships. The four perspectives of the Balanced Scorecards are depicted in Figure 75.
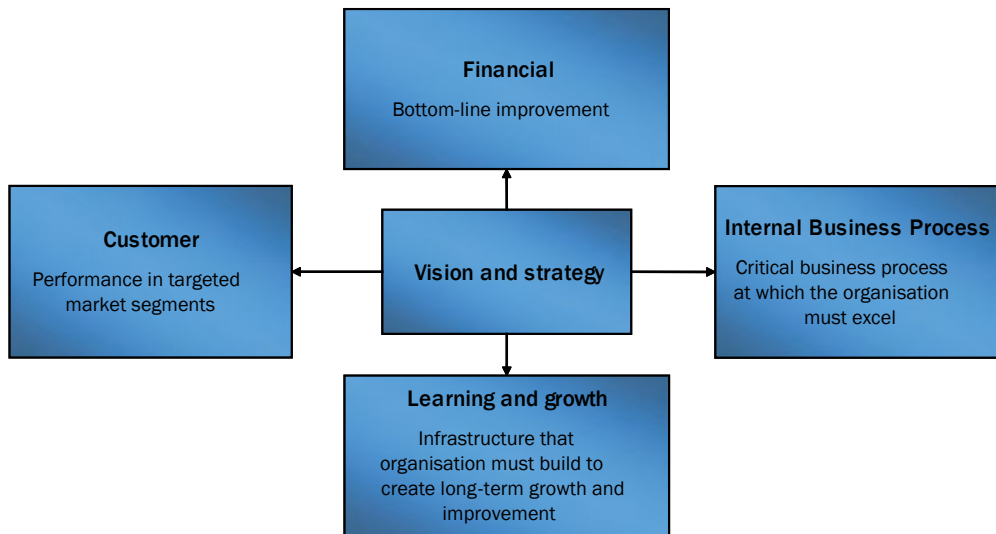
Figure 75: *Four perspectives of the Balanced Scorecard*

Kaplan and Norton (1996) provide generic areas that describe each of the perspectives:

- **Financial perspective:** Financial objectives and measures play a dual role (1) in defining the expected financial performance as a result of the strategy, and (2) as the ultimate targets and measures of the other scorecard perspectives. Three financial themes drive the business strategy: revenue growth and mix, cost reduction / productivity management and asset utilisation / investment strategy.

- **Customer perspective:** Companies identify their target markets and customers. The core measures for this perspective entail market share, customer retention, customer acquisition, customer satisfaction and customer profitability (Figure 76). In addition, businesses must also define the value proposition for each segment based on product and service attributes (functionality, quality and price), customer relationships (quality of purchasing experience and personal relationships) and lastly image and reputation.
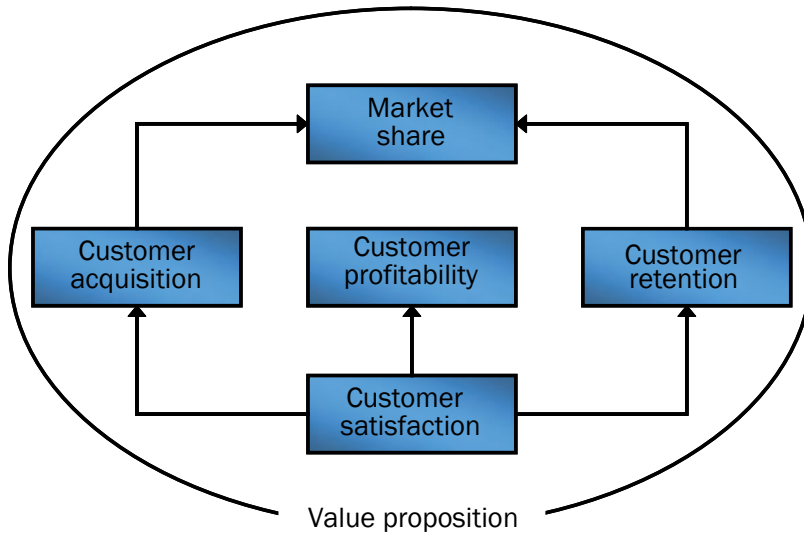
Figure 76: *Measures for the customer perspective*

- **Internal business process perspective:** Those processes that are most critical for achieving customer and shareholder objectives. This must be informed by addressing key components of the generic value chain depicted in Figure 77.
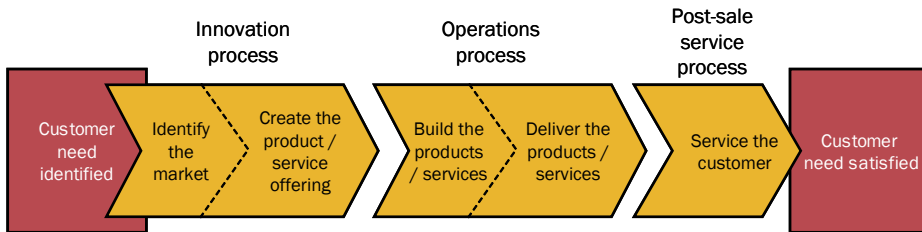
Figure 77: *Internal business perspective – the generic value chain model*

- **Learning and growth perspective:** The objectives in this perspective provide the infrastructure to enable ambitious goals in the other three perspectives to be achieved. The three principal categories for this perspective are employee capabilities (measured through employee retention, employee satisfaction and employee productivity), information system capabilities (or technology infrastructure) and motivation, empowerment and alignment (or climate for action), depicted in Figure 78.
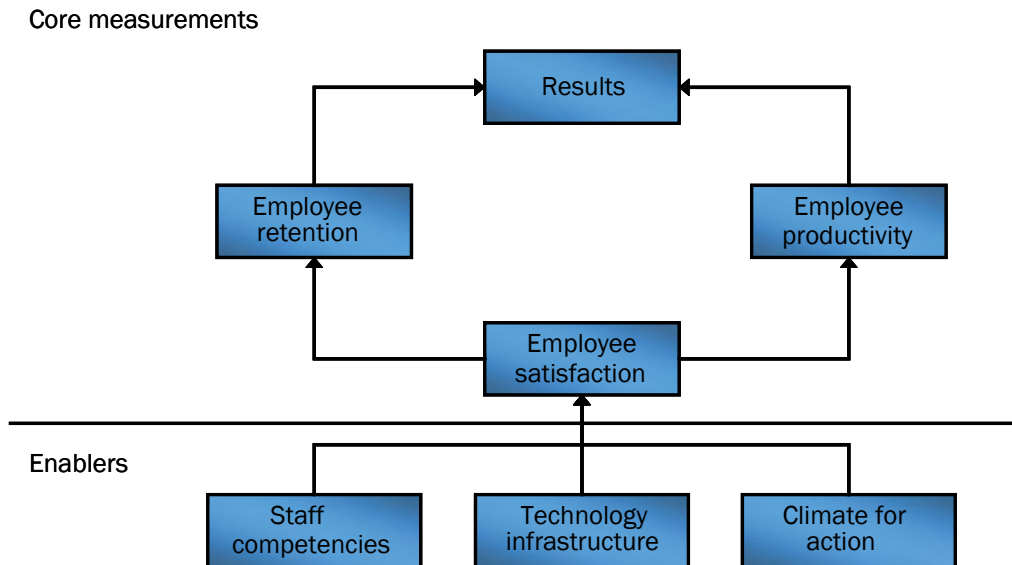
Core measurements

Figure 78: *The learning and growth measurement framework*

These measures are meaningless, however, if they do not have a direct link to the strategy. Kaplan & Norton (ibid.) provide three principles to facilitate this:

1. **Cause-and-effect relationships:** Every measure selected for a Balanced Scorecard should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit's strategy to the organisation (this concept later evolved to their strategy maps).
2. **Outcomes and performance drivers:** A good Balanced Scorecard should have an appropriate mix of outcomes (lagging indicators) and performance drivers (leading indicators) that have been customised to the business unit's strategy.
3. **Linking to financials:** Ultimately, causal paths from all the measures on a scorecard should be linked to financial objectives.

It is essential for each organisation to make these generic guidelines specific for its strategy and its implementation realities. The purpose is to have a set of measures for the implementation of a **single** strategy.

3.2 Using the scorecard

Kaplan & Norton (1996) provide a few simple principles to ensure that the scorecard is used to manage the performance of the business:

1. Ensure people alignment from top to bottom – communicate the strategy to all levels. Only when it is known can individual commitment be initiated. Cascade the scorecard into division and team objectives. Link it to rewards and incentives.

2. Establish long-term targets for strategic measures, direct strategic initiatives and significant physical and financial resources towards achieving these targets and specify short-term milestones along the strategic path

3. Establish a process of feedback, analysis and reflection that tests and adapts the strategy to changing conditions – this will culminate in strategic learning.

Ultimately, however, the leadership and commitment of top management to use the scorecard in a holistic manner to get from strategy design to implementation is the real determinant of success.

4. SUMMARY

At the end of our process, we can reflect on the ground we have covered. We've looked at consultative thinking and how to deploy it effectively in the new age. We've gone through a strategic process to determine our worries, dreams, toolkit, enablers and detractors. We thought about the future and made some strategic decisions. We considered the potential of our leadership, habits and quality of our people to execute our strategy. In the final instance, we ensured that people are ready for change, that they know what they should be doing, and we've put a measurement system in place.

We believe that strategy in all walks of life could be as simple as this. In many areas (like in the medical, business, physical and engineering sciences), complex research patterns and tools exist. We did not try and discuss these complexities here. We are showing how, provided that the correct skills set is present in your enterprise or situation, you can use the art of strategy to reach certain objectives. We trust that our book will be of assistance in this endeavour.

Final take-out

CHANGE – The profit margin of strategy is successful change. The coinage is improved relationships and processes.

CHANGING PEOPLE AND PROCESSES – Only people can bring about change. But they **must** be shown the way.

THE BALANCED SCORECARD AND IMPLEMENTATION – The scorecard has four perspectives, (financial, customer, internal business process, and learning and growth) and measures for all four of these perspectives must be linked to the developed strategy.

SUMMARY – Inspire people to change, give them the tools to do so and measure the results.

PART 4

CASE STUDIES

CHAPTER 16

ILLUSTRATIVE CASE STUDIES

The illustrative case studies in this section are composite (representing data and analysis from more than one business) examples from various companies in the specific industries. The case studies show how the strategic process described in the second and third section of the book is actually applied to develop strategic schemata – mental models to help us understand and relate to the questions, strategies and situations in each of the businesses. We have referred to elements of each of these businesses in the main text, but this comprehensive summary will assist the reader in grasping the complete picture.

1. A UTILITY IN AFRICA[16]

1.1 Strategic issues facing the utility

The key strategic issue facing the utility in its external environment was articulated as deconstruction challenges. As in many developing economies, unbundling and privatisation are high on the government's agenda, with the accompanying uncertainties experienced by investors, customers and employees alike. This would require an independent financial opinion of the utility, which could be affected by foreign exchange fluctuations. There is also an endeavour to interconnect the country's electricity grid with that of neighbouring countries to broaden the utility's market and to secure supply. The commercial impact of this endeavour, and the effect of government interventions from the various countries, however, were still unclear at the time of the strategic session.

The **key strategic issue** facing the utility in its **market environment** was articulated as a **market disconnect**. Given the monopolistic history of the utility, customer relationships were not a priority on the strategic agenda. The poor socio-economic conditions in the country lead to challenges in revenue collections, compounded by theft. The population is also geographically dispersed in small communities, making it very difficult for the utility to reach the broader market cost-effectively.

The **key strategic issue** facing the utility in its in**ternal environment** was articulated as **challenged resources**. On the supply side, the utility has long-term contracts with independent power producers (IPPs), which impact on its ability to optimise supply. In addition, the utility's dependence on hydro-power is challenged during the dry season. Limited financial resources impact on the ability to invest sufficiently in infrastructure. There seems to be a lack of teamwork amongst its employees, compounded by unintegrated IT systems.

1.2 Key success factors in the energy and utilities industry

The **key external success factor** for a company operating in the energy and utilities industry was articulated as being **well connected**. Good relationships with government and the regulator are key to ensuring the future success of a utility in a deregulating environment. This also holds true for investor confidence and involvement. In a challenged supply and demand economy, being part of a regional power grid will improve sustainability.

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[16] Composite case based on two utilities in two different countries in Africa.

The **key market success factor** for a company operating in the energy and utilities industry was articulated as being **commercialised**. Wide market reach (an expanded consumer base) will be facilitated by a competitive tariff structure, a well-developed market strategy for key accounts and reliability and quality of supply. This, in turn, will facilitate the optimum collection of revenue.

The **key internal success factor** for a company operating in the energy and utilities industry was articulated as **resource control and exploitation**. The starting point for this is effective management decisions and actions, supported by efficient information flow and communication on an integrated IT platform. This is further enabled by well-trained staff motivated through an efficient and effective performance-management system. This enables the sourcing of diversified, cost-effective and reliable generation sources, optimised through efficient sourcing agreements with Independant Power Producers (IPPs). The utility then requires sufficient capital to build reliable generation & transmission capacity, minimising transmission and distribution losses.

1.3 Opportunities and threats facing the energy and utilities industry

In the **external environment** the **key opportunity** is **new participants** entering the market. Government's drive for private sector participation will unlock external funding for infrastructure. In addition, the planned regional interconnections will stabilise prices. This is, however, **threatened** by an **unclear political agenda**. The government's policy on the power sector is still not finalised. Political pressure and government interference could force decisions that are not economically viable.

In the **market environment** the **key opportunity** is that, in a certain sense, there is an **unlimited market** available to the utility. Given the growing local economy, there is a high demand for power evidenced by a large number of outstanding customers awaiting connections. This is supplemented by opportunities in the export market. This is, however, **threatened** by **market apathy** evidenced by the large amount of outstanding debt.

In the **internal environment** the **key opportunity** is the availability of **diversified resources**. The utility has access to a variety of generation potentials (e.g. coal, nuclear, gas), not only locally but also cost-effective imports. This is, however, **threatened** by **challenges related to the sourcing** of the diversified resources. As mentioned previously, unpredictable weather conditions impact on the reliability of its hydro-power supply. In addition, the long term contracts with IPPs hamper optimum sourcing from other sources.

1.4 Strengths and weaknesses facing the utility

The discussion on strengths and weaknesses highlights that, due to its historic monopoly, the external and market environments are not exploited and managed to the extent that the internal environment is. It was much easier for the group to articulate the internal environment, than the external or market environment.

In the **external environment**, the **key strength** is the **monopoly** situation the utility can exploit to cement its position prior to new players entering the market. This is, however, **weakened** by the **poor governance** still prevailing in the company.

In the **market environment** the **key strength** is high demand in its **captive market**. This is, however, **weakened** by the **poor quality of its current supply network**.

In the **internal environment** the **key strength** is that the company is **well-organised** internally. It has a dedicated management team supported by skilled and dedicated people. Engineering, accounting and financial procedures are well documented, and there is generation capacity available. The **key internal weakness** is the **investment backlog**. This is evidenced in aged infrastructure, high system losses and poor system reliability. Attention to its workforce has also been lacking, evidenced in bureaucracy, undocumented HR procedures and a lack of teamwork. This is exacerbated by the perceived lack of transparency at management level.

1.5 Strategic objectives identified for the utility

The strategic discussion above enabled the group to identify the following strategic objectives for the company:

External environment	• **Lobby with government** to normalise the regulatory environment: Influence government's policy on rural electrification, allocation of adequate funding, government's priorities, expedite the establishment of a regulator and eventually create a good environment for investors • **Initiate regional interconnection:** Consult with neighbouring countries and regional bodies, establish JVs and develop a long-term power master-plan • **Address IPPs**: Take-over IPPs or restructure the contracts
Market environment	• Develop a **public relations programme** (to address corruption, vandalism, theft of electricity and to sensitise customers to the need for payment) • Develop a **commercial strategy** to meter, invoice and collect debts • Develop a **growth strategy** to connect more customers • Prepare for **pool trading**
Internal environment	• Restructure **long-term loans** • **Regenerate current infrastructure** • **Build new infrastructure** • **Process re-engineering** to eliminate bureaucracy and improve job/skill fit • Ensure **optimum training and development** programs to support job/skill fit

These objectives are depicted on the competence / relevance map in Figure 79 to facilitate classification and prioritisation. The size of the bubble indicates the strategic effort that will be expended by top management to implement the specific strategic objective.
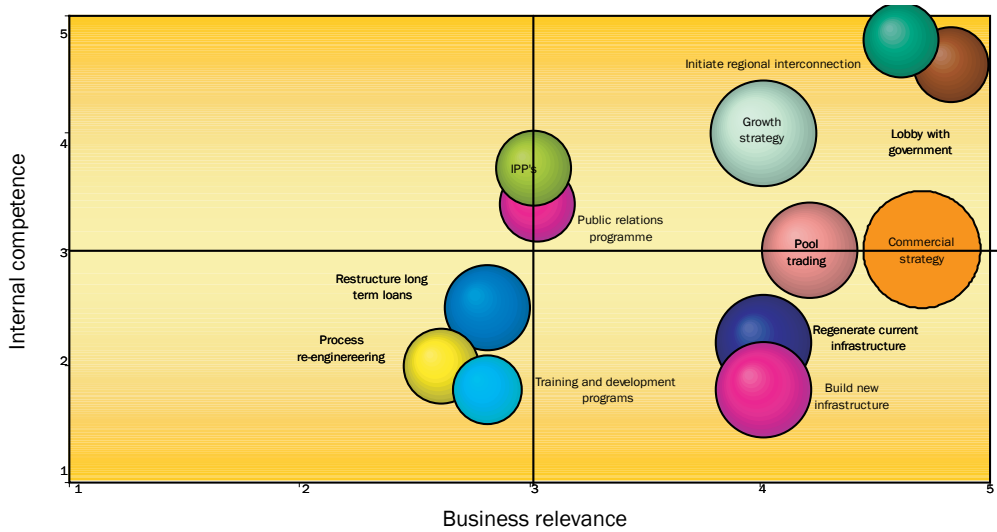
Figure 79: *Competence / relevance map for the utility company*

The classification is depicted in Figure 80.
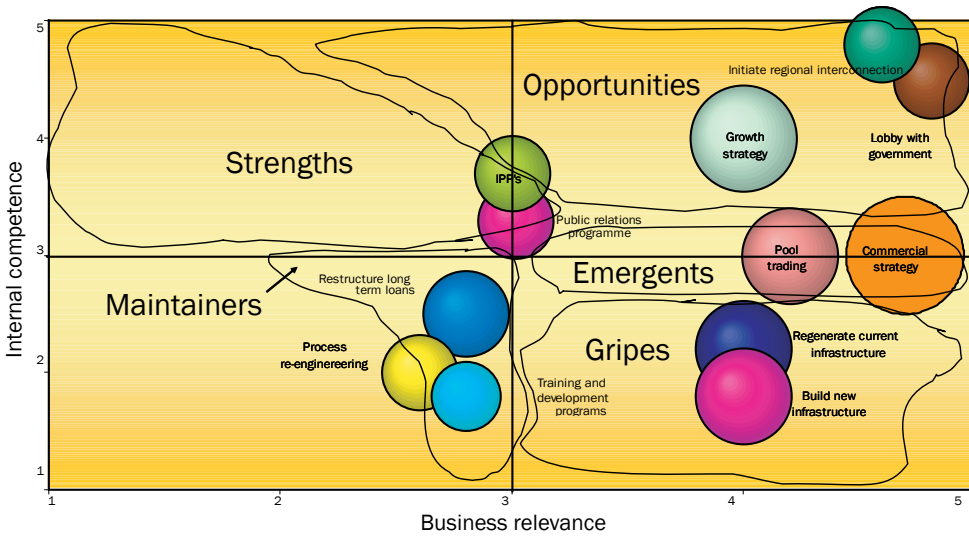
Figure 80: *Interpretation of the competence / relevance map for the utility*

It is clear that in this case study the strengths, and even maintainers, are mostly areas internal to the utility that had to be addressed even in a monopolistic situation. The gripes are typical of such an environment: lack of sufficient infrastructure investment due to a lack of competition and political agendas. Due to privatisation efforts from government, the incumbent has realised that it has to start preparing for pool trading and develop a commercial strategy to create loyal customers. Opportunities are an extension of these areas where the incumbent will initiate regional interconnection, once it is ready for pool trading with a more secure customer base. This will also serve as a platform to enhance its lobbying power with government, as well as to develop a growth strategy to connect more customers from a sound base.

The map further assists us in identifying the strategic pillars for the utility company. These are depicted in Figure 81 below.
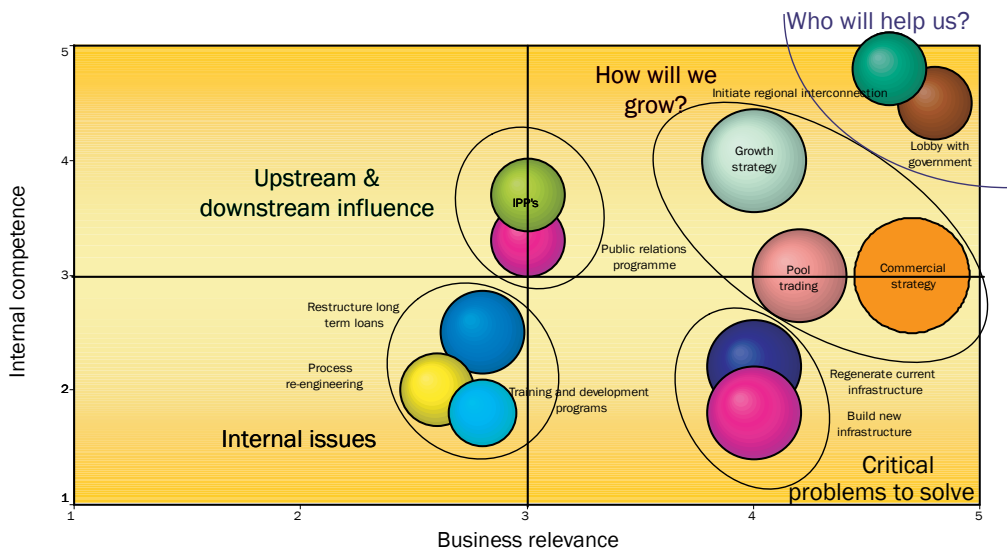
Figure 81: *Identification of strategic pillars (strategic themes)*

The utility must address its internal issues and critical investment backlog, in order to exert more upstream and downstream influence, which in turn will facilitate growth opportunities and networks with other stakeholders.

1.6 Leadership, culture and change capacity

The leadership, culture and change capacity were measured through a questionnaire completed by the attendees of the workshop. This is not necessarily a representative sample and is merely shown for illustrative purposes. Ideally, this capacity should be measured throughout an organisation on a statistically representative sample to obtain valid results.

The leadership behaviours in the utility are depicted in Figure 82 against a reference of delegates in previous workshops.
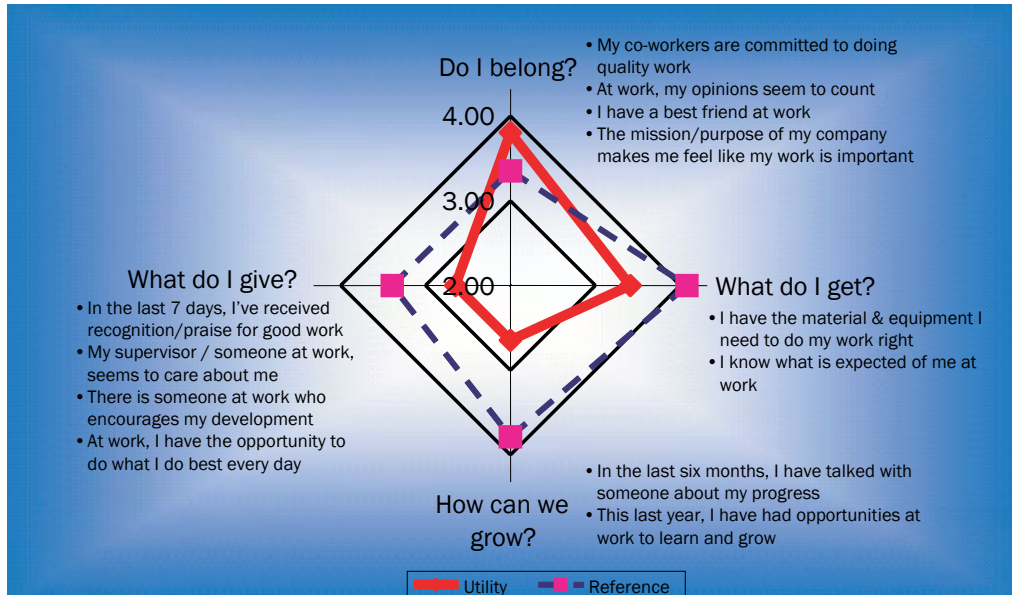
Figure 82: *Leadership behaviours*

In terms of group fit, there clearly is a strong sense of belonging within the leadership team. This is, however, negatively impacted on by the fact that the team members feel they are not given sufficient opportunity to grow their careers.   In terms of personal behaviour, delegates indicated that they are not yet giving their total commitment to the company. They also feel, however, that they are not sufficiently empowered to contribute more.

The culture of the utility is depicted in Figure 83 against a reference of delegates in previous workshops.
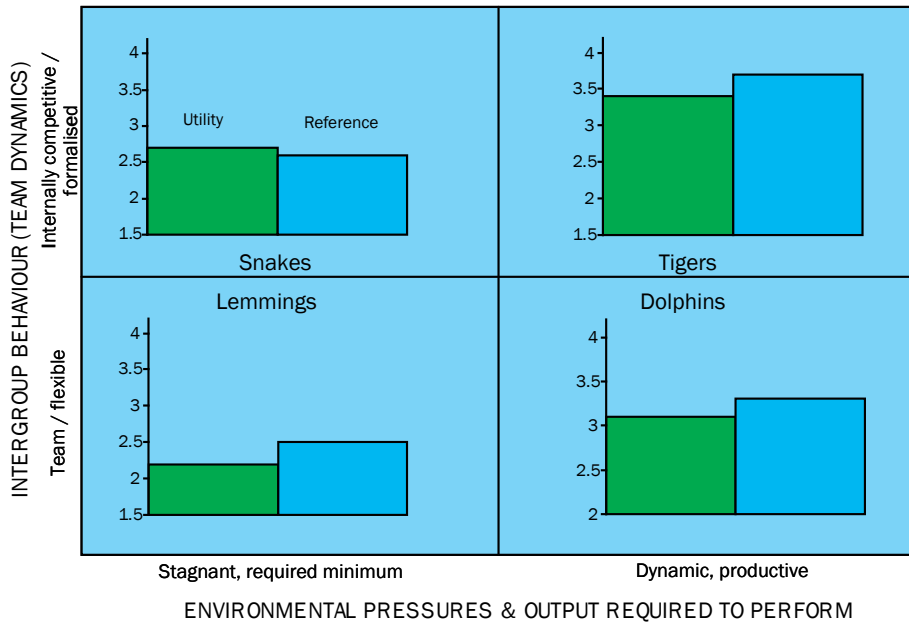
Figure 83: *Culture*

The culture of the utility is not yet conducive to optimal behaviour. On a positive note, lemming behaviour is lower than the reference. Snake behaviour is still too high, however, while tiger and dolphin behaviour is too low relative to the reference. This scenario is quite typical for this situation and will be addressed as the business progresses on the path to commercialisation. It is critical to take note of this issue and address it at relevant times during the commercialisation process.

The change capacity of the utility is depicted in Figure 84 against a reference of delegates in previous workshops.
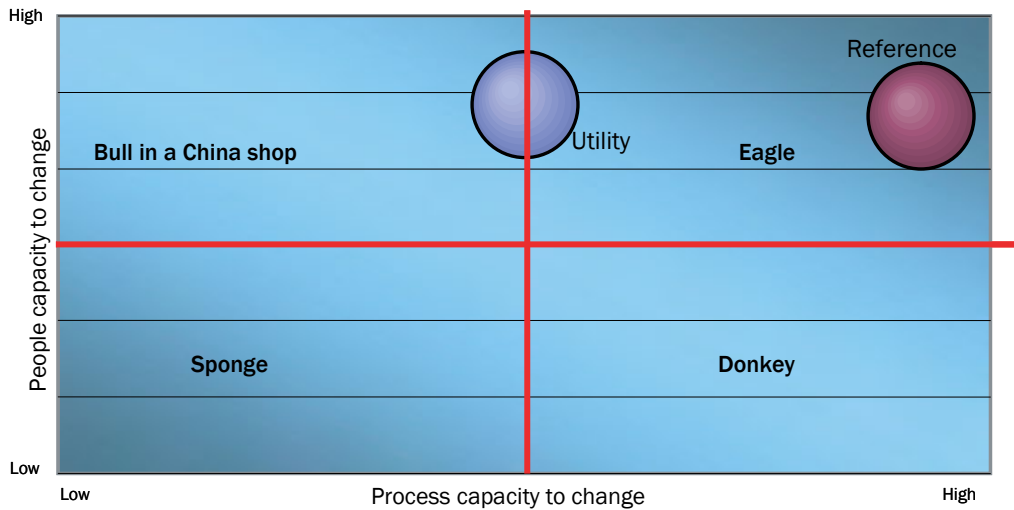
Figure 84: *Capacity to change*

Although average, the process capacity to change is quite low relative to the reference. On the other hand, the people's capacity to change is on par. This bodes very well for the utility. It can be expected that processes within an incumbent monopoly will not be conducive to change, but if the leadership team has the capacity to change, the challenges facing the utility are not insurmountable.

1.7 Summary

This utility was able, through the process, to clearly articulate problems of deconstruction into a privatised environment against the backdrop of third world market and supply conditions. A robust external positioning, market development and infrastructure rejuvenation strategy were developed. It was clearly illustrated that internal restructuring, especially around the relatively run-down state of generation assets was necessary, but could only be achieved by funding. The funding will be obtained through success in three distinct areas, i.e. through market growth, by exploiting the available upstream and downstream opportunities and finding new investors in the change from parastatal to private enterprise.

This was further enriched by trying to understand the possible implementation limitations for this strategy. Problems were especially identified around the past poor investment in leadership development – in the areas of recognition and growth. Managers feel that they are not encouraged to perform, nor do they receive regular career counselling. This obviously leads to a culture of poor responsiveness vis-à-vis the environment, exacerbated by inadequate team dynamics, a predominant snake culture. People are, however, willing to change once the change processes have been installed. This means that a change management programme that focuses on personal leadership development and business process re-engineering should be able to succeed.

2.   A LARGE FOOD PRODUCTION COMPANY IN THE SOUTH[17]

2.1 Strategic issues facing the food production company

The **key strategic issue** facing the food production company in its **external environment** is articulated as **lack of visibility and global positioning**. The company does not have a strong corporate brand and identity. It has a shortage of international alliances which *inter alia* impacts on its ability to address the issue of bio-technology and new food industry legislation. Unpredictable world commodity prices lead to vulnerability in procurement, compounded by exchange rate risks. These factors impact negatively on the company's ideal to list on the stock exchange of the company's home country.

The **key strategic issue** facing the food production company in its **market environment** was articulated as a **lack of presence in an evolving market**. The company is not regarded as a market leader, partly because of its slow speed to market. Its traditional market is shrinking due to higher mortality rates, a decline in disposable income and urbanisation. In addition, the company does not have enough strong brands in growing markets. There is also a big risk of strong global entrants in the company's domestic market.

The **key strategic issue** facing the food production company in its **internal environment** was articulated as **challenged resources**. The company is vulnerable due to its reliance on its cash cow. This vulnerability results *inter alia* in insufficient funds being made available for R&D activities. The workforce does not represent the demographics of the local population and is increasingly exposed to illness and disease. Transfer pricing is also a contentious issue.

2.2 Key success factors in the process foods industry

The **key external success factor** for a company operating in the processed foods industry was articulated as the ability to **create value in a sustainable way**. This not only means value for shareholders, but also proactive, sound corporate governance and a good corporate image. This will facilitate strategic partnerships on a global scale, which will give the company access to more established brands and markets and technical expertise, and will also enable it to expand its position in the value chain.

The **key market success factor** for a company operating in the processed foods industry was articulated as **discerning brand leverage**. This translates into strong brands in each of its target market segments, facilitated by effective market segmentation and a diverse product offering. This, in turn, will enable the company to continually grow organically.

The **key internal success factor** for a company operating in the processed foods industry was articulated as **resource control and exploitation**. Strategic sourcing and quality assets are key to enable efficient production. A balanced product portfolio is facilitated by an effective product development strategy.   In addition, effective distribution and good IT systems are critical. Lastly, strategic leadership and a high-performance culture (skills, performance and assets) facilitate an optimal internal process.

The rating of the food company against its major competitor on these key success factors is depicted in Figure 85. Especially in the market environment, the food company is clearly lagging behind its major competitor.   Internally, the product development strategy and, externally, the company's image need critical attention.

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[17] A composite case based on three different companies in the southern hemisphere; the one is on one continent and two others on a different continent.

INTERNAL KSF

MARKET KSF   EXTERNAL KSF

Food company ☐   Major competitor ☐
Rating scale: 1 = Poor, 5 = Excellent
Sorted according to rating of food company
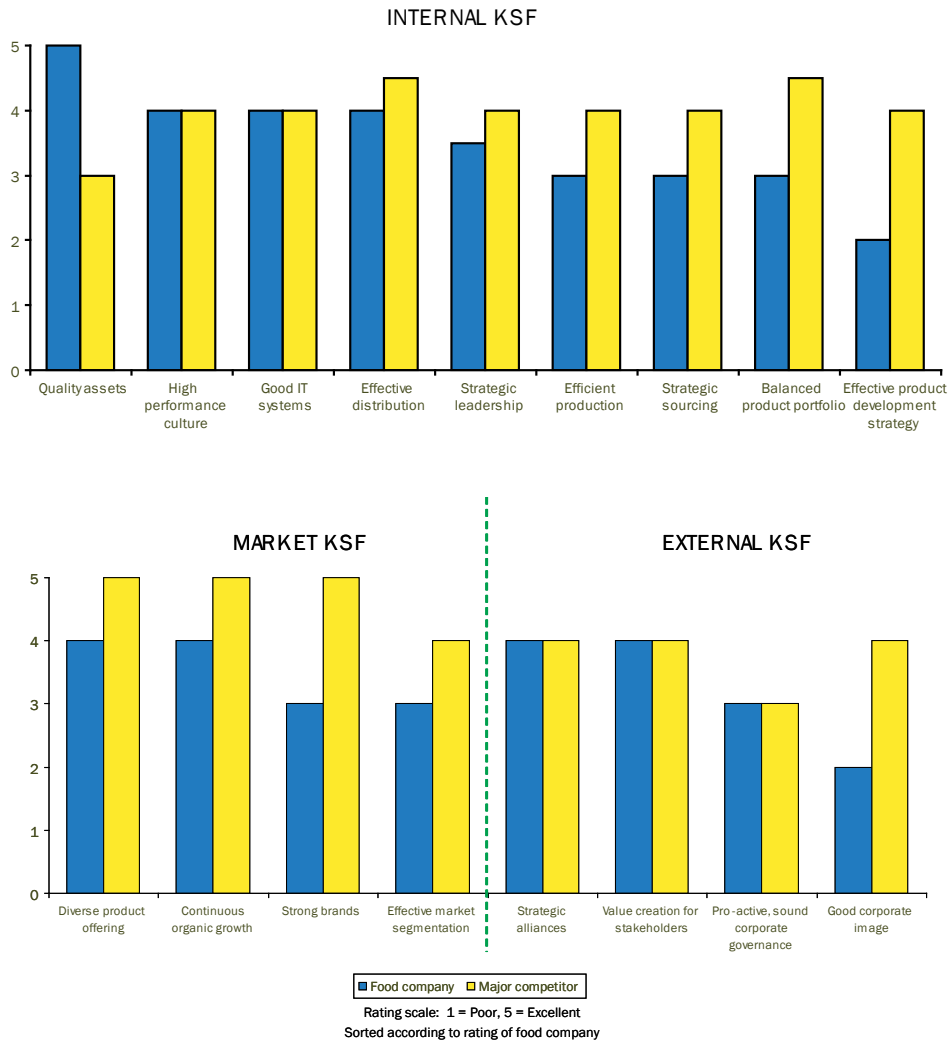
Figure 85: *Key success factor rating*

2.3 Opportunities and threats facing the processed foods industry

In the **external environment** the **key opportunity** is to create a **sustainable presence** achieved through increased networking and building the company's corporate image. This should culminate in increased strategic alliances and possibly even the listing of the company. This is, however, **threatened** by **uncertainty** caused by issues regarding ownership, increasing legislative pressures in the food industry, exchange rate volatility and political instability in the broader region that the company operates in.

In the **market environment** the **key opportunity** is articulated as **product innovation**. The company is exposed to a more discerning customer base, which could result in a price premium

if correctly exploited. This necessitates a customer relationship focus and the development or acquisition of strong brands. The company also has the opportunity to strengthen its presence in the regional market by catering for those specific market needs. The company is, however, under **threat** of being **marginalised** due to the increasing power of retailers on a global scale, as well as the threat of new entrants in its local market. In addition, the supply chain infrastructure to serve its market is increasingly under pressure.

In the **internal environment** the **key opportunity** is to **exploit current assets**. This will be done through the increasing focus on a high performance culture and the exploitation of management information systems. The company is however **threatened** by the **loss of intellectual property** if key personnel defect to competitors.

Looking at the value chain of the company's industry, depicted in Figure 86 below, the company identified its specific position in the value chain. Some food production companies occupy a position close to the origins of the value chain. This is typically a "farmers"-type company. Others do more of the initial value-add, called "millers", and at the higher end are the "branders", who often "own" the final consumer. The company realised that, although their successful businesses are in the "branders" category, the company is more of a "farmer" type business and downstream movement is essential.
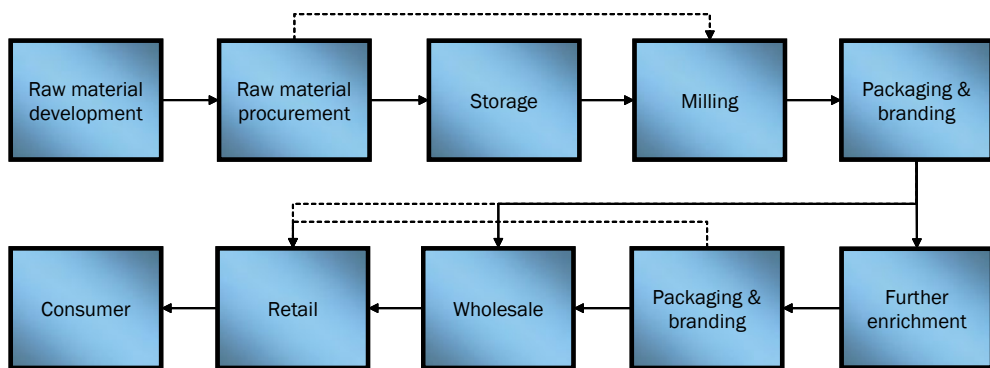
Figure 86: *Value chain for processed foods industry*

2.4 Strengths and weaknesses facing the food production company

In the **external environment** the company's **key strength** is that it has pockets of influence. It has some good government relations and has financial leverage to further its networking activities. This is, however, **hampered** by the company's **image as an upstream player**.

In the **market environment** the company's **key strength** is that there is **awareness** of its current brands in the market, and it has diverse products to leverage. The **key weakness** is that there does seem to be a **disconnect** with its customers due to ineffective relationship management, lack of customer service and dubious merchandising practices.

In the **internal environment** the **key strength** is that the company does have strong, **exploitable assets**. These include the availability of funds, management and leadership skills, a stable workforce and a good company culture. This seems to be **hampered** by a **lack of product innovation**.

2.5 Strategic objectives identified for the food production company

The strategic discussion above enabled the group to identify the following strategic objectives for the company:

External environment	• Improve corporate identity and image to: ○ Achieve optimal and sustainable stakeholder value, influence legislation and policies locally, attract strategic alliances, position the group for public listing and improve the corporate brand awareness • Minimise vulnerability to fluctuating commodity prices and exchange rates • Align bio-technology policies with customer expectations • Broaden shareholder base (including strategic alliances to change the face of the company)
Market environment	• Improve the group's geographical presence in growing markets • Develop and implement a CRM culture • Develop a brand management strategy (grow existing brands, develop and/or acquire innovative products and build them into strong brands) • Identify possible global invaders & develop contingencies (e.g. through joint ventures or retaliation strategies)
Internal environment	• Develop a technology strategy (this includes leveraging partnerships, enhanced R&D and product development) • Review optimal utilisation of resources (people, assets, procurement, etc.) • Develop a high-performance culture (includes the attraction and retention of a talented and skilled workforce) • Develop and implement a business transformation plan (including succession planning and strategic sourcing)

These objectives are depicted on the competence / relevance map in Figure 87 to facilitate classification and prioritisation. The size of the bubble indicates the strategic effort that will be allocated by top management to implement the specific strategic objective.
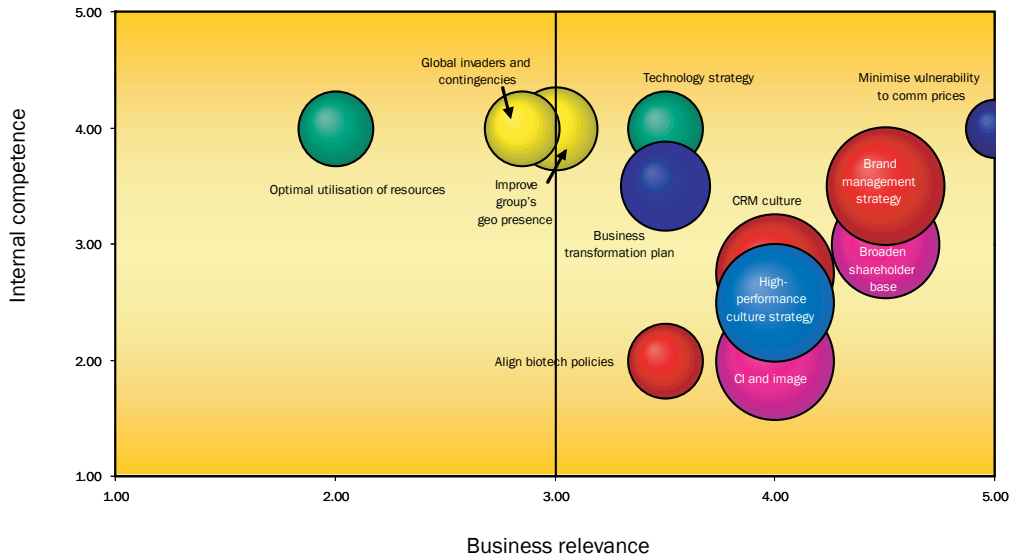
Figure 87: *Competence / relevance map for the processed foods company*

The classification is depicted in Figure 88 below.
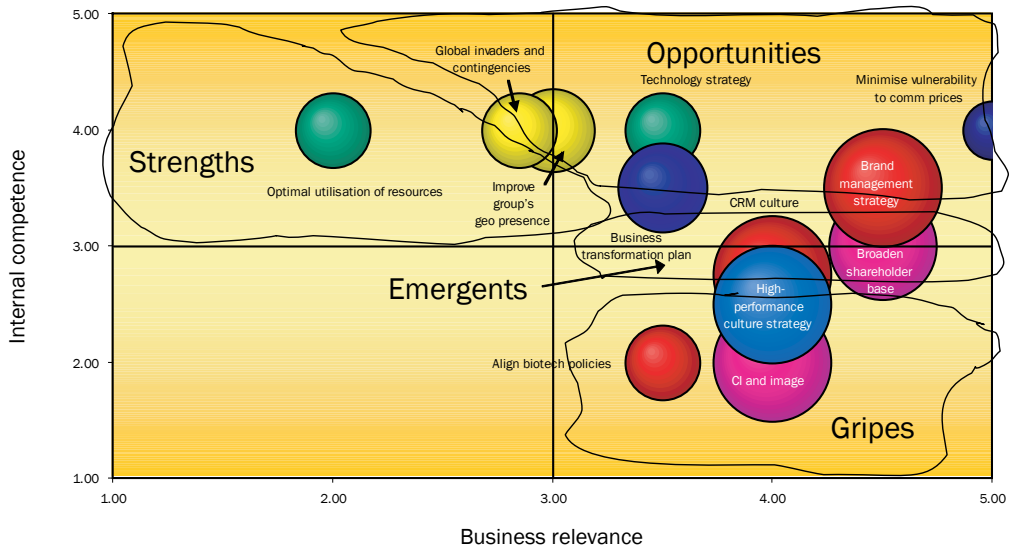
Figure 88: *Interpretation of the competence / relevance map for the processed foods company*

The company's strengths are the ability to exploit its assets and increase its geographical presence. In order to grow organically, however, the company must improve its ability to address its corporate image, bio-tech policies and a high-performance culture. This will enable it to successfully implement a CRM culture and broaden the shareholder base. Opportunities relate to the ability to exploit commodity trading, optimally apply technology to product innovation and address the transformation of its business.

The map further assists us in identifying the strategic pillars for the company. These are depicted in Figure 89.
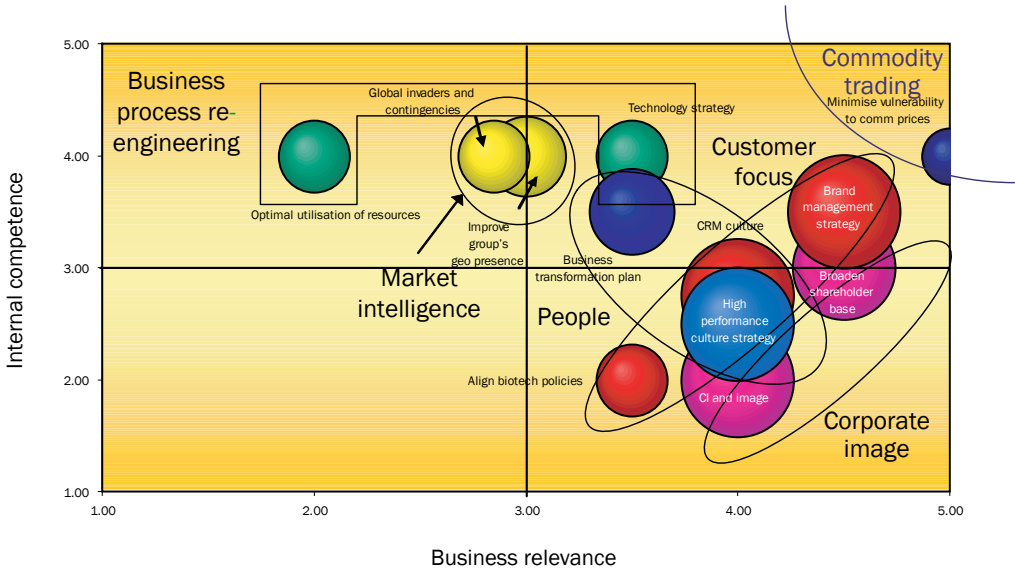
Figure 89: *Identification of strategic pillars (strategic themes)*

The pillars are summarised in Figure 90.
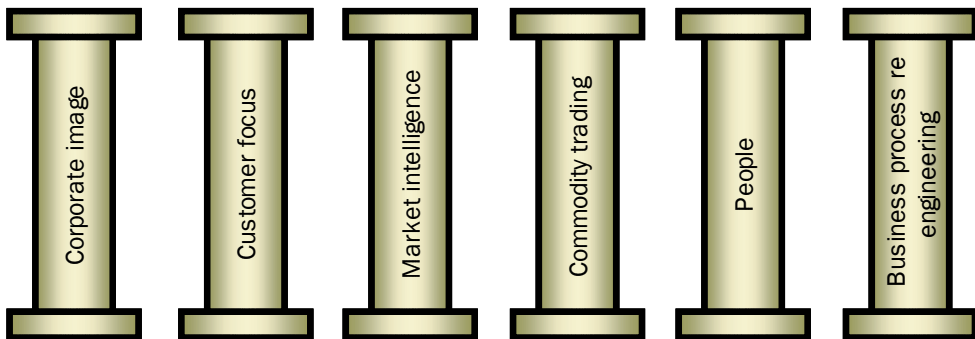
Figure 90: *Summary of strategic pillars*

2.6 Leadership, culture and change capacity

The leadership, culture and change capacity were measured through a questionnaire completed by the attendees of the workshop. This is not necessarily a representative sample and is merely shown for illustrative purposes. Ideally, this should be measured throughout an organisation on a statistically representative sample to obtain valid results.

The leadership behaviours in the food production company are depicted in Figure 91 against a reference of delegates in previous workshops.
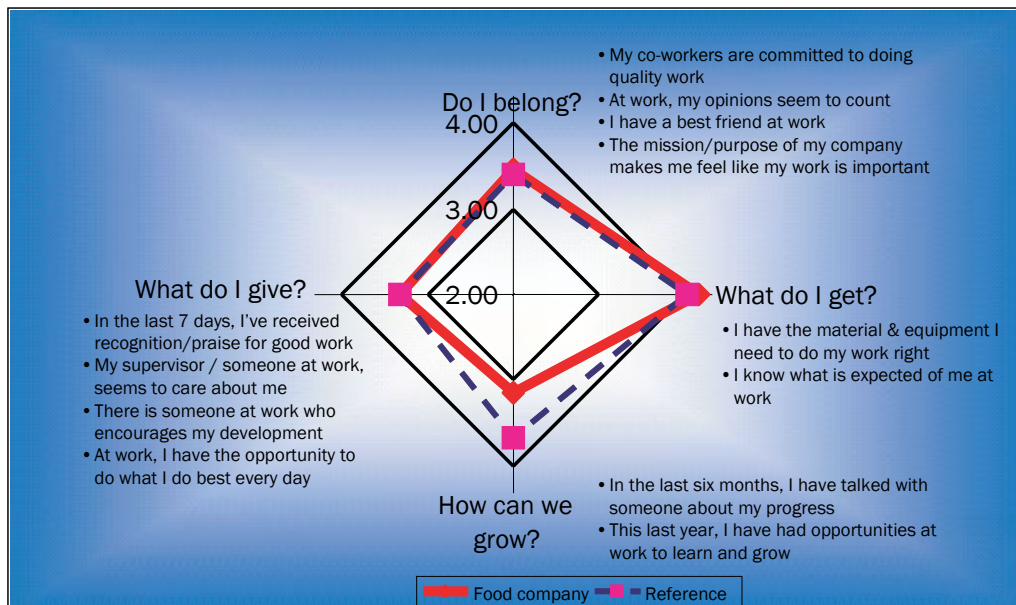
Figure 91: *Leadership behaviours*

In terms of group fit, there clearly is quite a strong sense of belonging within the leadership team. As in the previous case study, this is negatively impacted on by the fact that the team members feel they are not given sufficient opportunity to grow their careers. In terms of personal behaviour, delegates are on par with the reference in terms of what they give to the company. This is, however, still quite low for a management team. They do feel that they are sufficiently empowered to contribute to the company.

The culture of the food production company is depicted in Figure 92 against a reference of delegates in previous workshops.
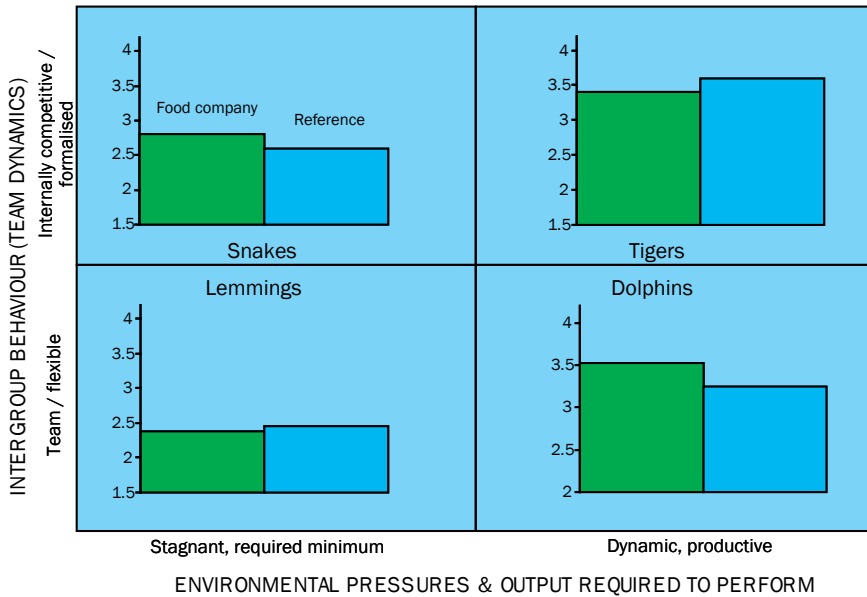
Figure 92: *Culture of the food production company*

The culture of the food production company is quite similar to that of the utility discussed in the previous case study. Lemming behaviour is lower than the reference. Snake behaviour is still too high, however, while tiger behaviour is too low relative to the reference. Dolphin behaviour is higher than the reference which bodes well for the ability to implement the challenging strategy. Once again, it is critical to take note of culture issues, and address these during relevant times in the strategy implementation process.

The change capacity of the food production company is depicted in Figure 93 against a reference of delegates from previous workshops.
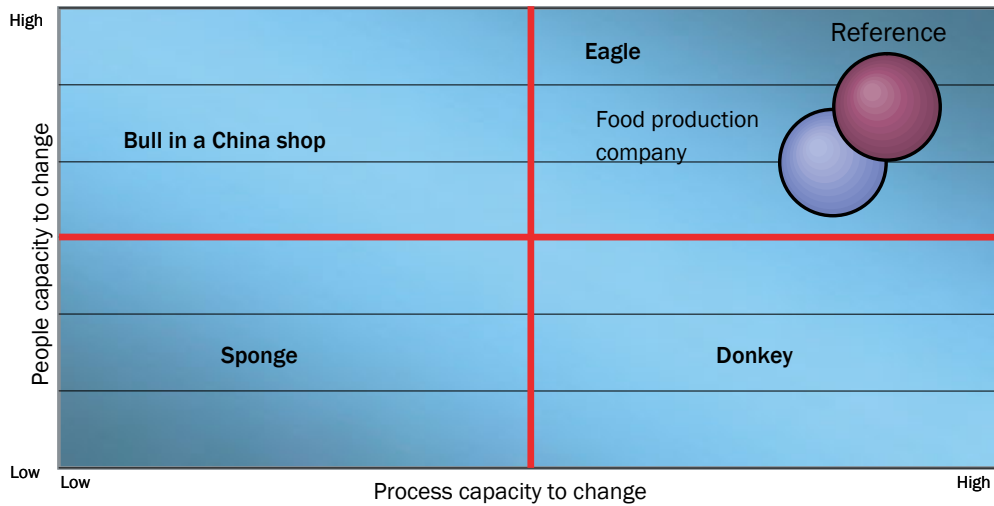
Figure 93: *Capacity to change*

The company's management team showed a clear capacity to change, supported by a process capacity to change. This will facilitate the successful implementation of the strategy.

2.7 Balanced scorecard for implementation

To track the implementation of the strategy we make use of balanced scorecard measures. The balanced scorecard illustrated here was developed for the strategic pillar "Customer focus" during the workshop and serves as an example. The scorecards should be finalised with input and buy-in from a more diverse (yet relevant) audience. The scorecards should then be cascaded down to strategic objectives and specific projects to ensure that the key elements are tracked to guarantee successful implementation of the strategy.

SCORECARD FOR PILLAR: CUSTOMER FOCUS		
Key performance area		**Key performance indicator**
Financial & external	Adding value to stakeholders	Increase turnover
		Increase profit
		Increase in volume
Customers & markets	Adding value to the customers	Number of new products per annum
		Volume growth new customers / new markets
		Increase market share
		Number of new customers
	Customer intimacy	Customer satisfaction index
		Supplier rating by customer
		Debtors day outstanding
		Order fill / late deliveries
	Customer centric biotech strategy	Customer satisfaction index for biotech
	Leading brands in categories	Amongst top 5 brands in 3 categories
Internal business processes	Delivering service to the customer	Customer satisfaction index
		Order fill rate
		On–time delivery
		Credit notes as a % of invoicing
	Customer contact	Number of contacts per rep / sales employee
	Point-of-sale management	Stock-outs
	Implement CRM	Implementation rate
Learning & growth	Trained CRM personnel	Training programmes completed successfully
	Brand management	Brand and category management training completed successfully
	Customer centric workforce through training & coaching	Lower customer complaints
		Credit notes as a % of invoicing
		Survey index

2.8 Summary

Through the process the top management team articulated a clear strategic model of an upstream "farmer"-type business that has grown substantially, but still needs a positioning closer to the consumer. This was evidenced by their lack of brands, customer relations and new product innovation. The company's growth ideals are facilitated by a looming IPO and new possible global alliances, but in order to get there they formulated a strategy of increasing visibility: in the external market through corporate identity, in the market place through both organic and inorganic brand growth and internally through product innovation, requiring an increased focus on research and development. The company has sound leadership, except for career growth and development plans that require attention. Other leadership functions will need more support and maintenance over the short term. The "farmer" background (typified by farmers' often more isolated lifestyle) has led to a culture typified by "snake" behaviour, which means a culture of more openness and also more environmental responsiveness is required. Leaders are however in a strong "change" mindset and ready for it, however, provided a participative and thought-based leadership path is chosen.

3. A MUNICIPALITY[18]

3.1 Positioning ideals for the municipality

The **positioning ideal** for the municipality in the **external environment** is articulated as being the **flagship** municipality in its region. This will be achieved through the involvement of all spheres of the community in the business sector and through the provision of support services to the broader region.

The **positioning ideal** for the municipality in the **market environment** is articulated as the provision of **sustainable growth**. Small, bankable projects will be supported to build sustainable local economies. Potential areas for both large and small projects are the tourism industry and the craft industry. The municipality wants to increase local processing and become a net provider and exporter of food. Local mineral deposits must be exploited optimally.

The **positioning ideal** for the municipality in the **internal environment** is articulated as the **upliftment** of the local people. Employment will be created in rural areas, and small, medium and micro enterprises will be developed through investment expansion. Employability of the local people will be enhanced through skills development and entrepreneurial capacity building. This will be done on a platform of well-developed infrastructure, sustainable resource use and service provision.

3.2 Strategic issues facing the municipality

The **key strategic issue** facing the municipality in its **external environment** is articulated as **a lack of structured forums**. There are insufficient governance and development forums to facilitate the balancing of resources. Furthermore, there are not enough strategic partners to assist the municipality in the execution of its ideals.

The **key strategic issue** facing the municipality in its **market environment** is articulated as **inadequate economic structure**. The economy is primary-based and far from its main markets, resulting in high logistics costs. There seems to be a lack of marketing and resourcefulness, resulting in little local beneficiation. The pressure to show quick profits could result in the

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[18] The municipality is situated in a relatively poor area of South Africa, but with many resources.

creation of economic units that are not sustainable in the longer term.

The **key strategic issue** facing the municipality in its **internal environment** is articulated as **ineffective resource utilisation**. The high population growth is compounded by a slow development pace. This is partly due to the lack of integrated planning and unstructured processes. Resources, such as capital, jobs, water, infrastructure and skills are not optimally managed and developed. HIV / Aids prevalence in the local community is a concern.

3.3 Key success factors for a municipality

The **key external success factor** for a municipality is articulated as **collaborative governance**. This implies broad consultation and collaboration with all stakeholders in a spirit of good governance (a prerequisite being the existence of a stakeholder forum to address strategic issues). Partnerships between the community, public and private entities are also critical.

The **key market success factor** for a municipality is articulated as the **ability to market** the municipal area on a strategic basis. The municipality must create a conducive environment for economic development, especially the development of sustainable secondary economies (beneficiation) based on the primary economies. This necessitates the development of market strategies to develop new markets locally and globally, the establishment of a regional market hub and joint sectoral marketing initiatives. There must also be a focus on local customer retention – keeping local expenditure within the municipal boundary.

The **key internal success factor** for a municipality is articulated as **planned capacity building**. The platform for this is proper consultative planning and structures in line with a shared vision, continuous monitoring and evaluation of progress supported by professional processes. The platform must be underpinned by a proper wider institutional framework to ensure alignment with regional and national objectives. This will enable the development of relevant skills and the mobilisation of funds to ensure proper development and utilisation of land and other resources. The delivery capacity of the municipality must be sufficient to address these objectives.

3.4 Opportunities and threats facing the municipality

In the **external environment** the **key opportunity** is to create a **development hub** in the municipal area. The municipal area could become a gateway to the broader region. There are considerable opportunities for the development of economic clusters due to the diversity of the region. The activities should take place within the presence of an environmental envelope. Partnerships and joint ventures could enable the participation of the broader community in the economy. These ideals are, however, **threatened** by **misalignment**. The business community is divided on future growth strategies and it is a challenge to align the ideals of the various spheres of government. Increased industrial activity and population growth could impact on environmental control.

In the **market environment** the **key opportunities** are articulated as **upstream integration and downstream beneficiation**. Opportunities exist to collaborate in terms of upstream sourcing activities in major industries and to develop secondary local industries downstream from the major industries. The area can also increase its focus on the development of regional markets. This is, however, **threatened** by potential **external interests** entering the economy that are not

aligned with the municipality's growth strategy. In addition, the distance to major markets could impact negatively on the municipality's ideals.

In the **internal environment** the **key opportunity** is the **optimised use of resources**. The area has a good natural resource base, which could be exploited by the optimised use of infrastructure and the development of new infrastructure in a low-interest-rate environment. There are also significant opportunities to optimise water catchment management in the area. This is **threatened** by a potential **socio-economic breakdown**. There is widespread illiteracy and HIV / Aids prevalence amidst high population growth. The community is not yet equipped with the required change toolkit to manage heterogeneous emotional and political agendas. There is also uncertainty about access to water for industry and access to capital for development.

3.5 Strengths and weaknesses facing the municipality

In the **external environment** the municipality's **key strengths** are a well-developed **legislative framework** and good **collaboration** between sectors. This is, however, **weakened** by a **lack of structured forums**. The area is weak in attracting investment, spheres of government are not aligned and there are limited strong pressure groups to drive the area's ideals.

In the **market environment** the municipality's **key strength** is a strong brand. The area is well-known for its quality resources. This is, however, **weakened** by a **lack of proactive market development**. Players are weak in marketing the opportunities of the region. There are insufficient opportunities for young entrepreneurs. The high logistical cost could also discourage potential investors.

In the **internal environment** the **key strengths** of the municipality are a **strong primary resource base** and **leadership within the local community**. The cross-sectoral expertise base and well-developed infrastructure enable the development of mineral, game farming and agricultural opportunities. Current players in major industries have good leadership skills with the ability to persuade local communities to initiate change and economic growth. The municipality is well managed and has a good reputation in the region. This is **weakened** by a **lack of optimal resource utilisation**. Not all the community leaders are ready for change. This is compounded by insufficient communication and the shortage of capacity within the municipality to drive the process strategically. This is also evidenced in insufficient support for small business development, the lack of a comprehensive risk-management strategy and an ineffective resource management strategy.

3.6 Strategic objectives identified for the municipality

The strategic discussion above enabled the group to identify the strategic objectives for the municipality.

External environment	• Establish an integrated, representative development forum
	• Alignment with, execution and influence of government strategy
	• Development of business clusters based on current strengths
Market environment	• Support development of major industries
	• Support current provincial and other agricultural plans incl. agriculture image building
	• Support current provincial and other tourism plans
	• Promote secondary (downstream) industries
	• Focus on the development of small, medium and micro enterprises
Internal environment	• Develop a funding strategy
	• Solve transformational issues
	• Address capacity building and skills
	• Develop a water management plan
	• Address services and infrastructure needs incl. the national road
	• Address land restitution

These objectives are depicted on the competence/relevance map in Figure 94 to facilitate classification and prioritisation. The size of the bubble indicates the strategic effort that will be expended by top management to implement the specific strategic objective.
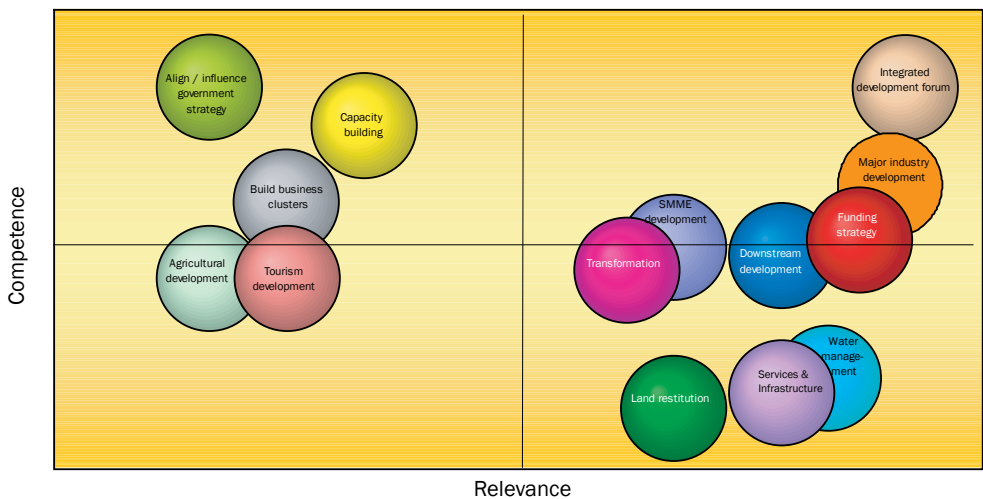
Figure 94: *Competence / relevance map for the municipality*

The classification is depicted in Figure 95 below.
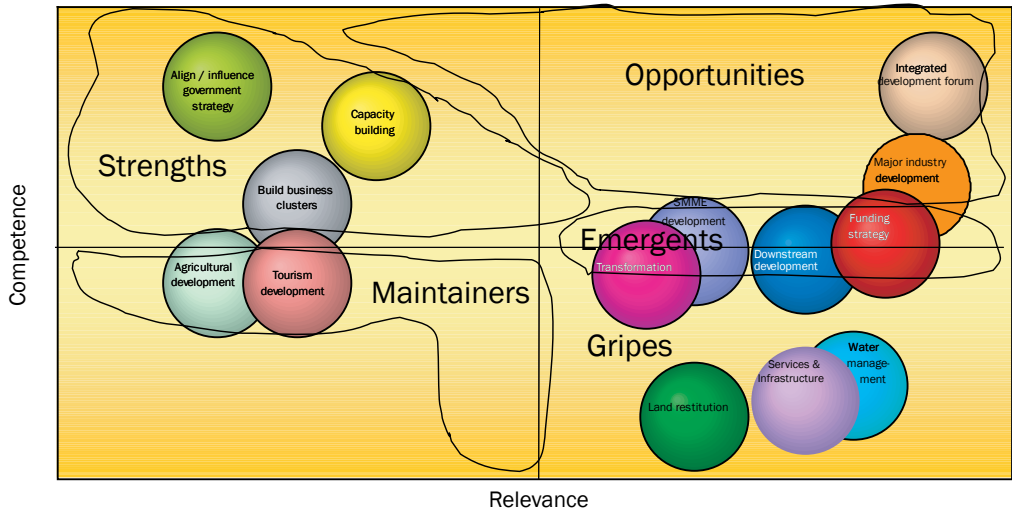
Figure 95: *Interpretation of the competence / relevance map for the municipality*

The municipality's strengths are the building of business clusters, capacity building and influencing government strategy. Agricultural and tourism development is already receiving attention. These activities should just be focused to obtain maximum benefit for the region. Land restitution, infrastructure and services (incl. water management) should receive urgent attention to support the ideals of the municipal area. SMMEs and downstream industry development is a natural extension of the current business base. This will assist with the transformation of the economy, but will not be possible without a well-constructed and supported funding strategy. Significant growth for the region will, however, only be achieved through the continuous development of its major industries, supported by an integrated development forum.

The map further assists us in identifying the strategic pillars for the municipality. These are depicted in Figure 96.
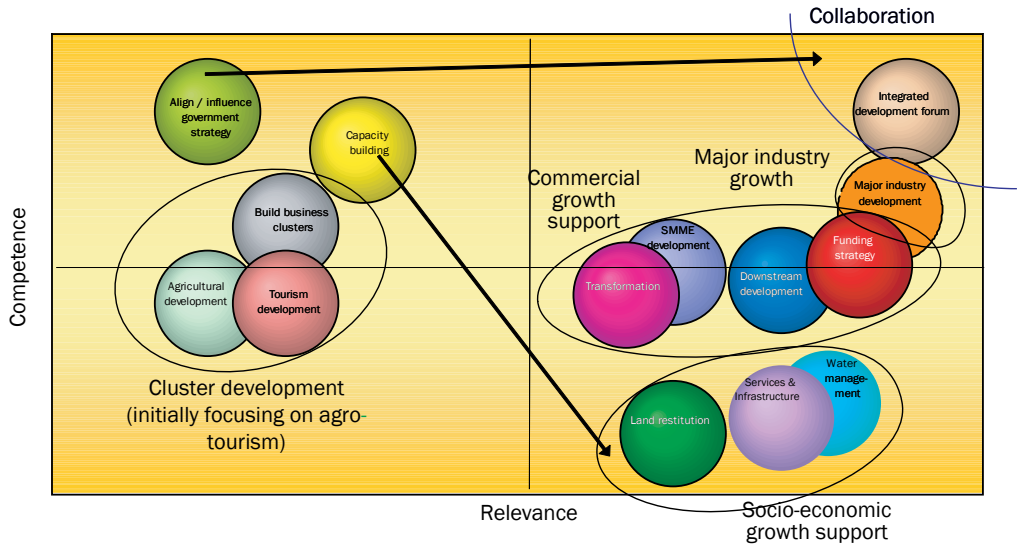
Figure 96: *Identification of strategic pillars (strategic themes)*

The pillars are summarised in Figure 97 below.
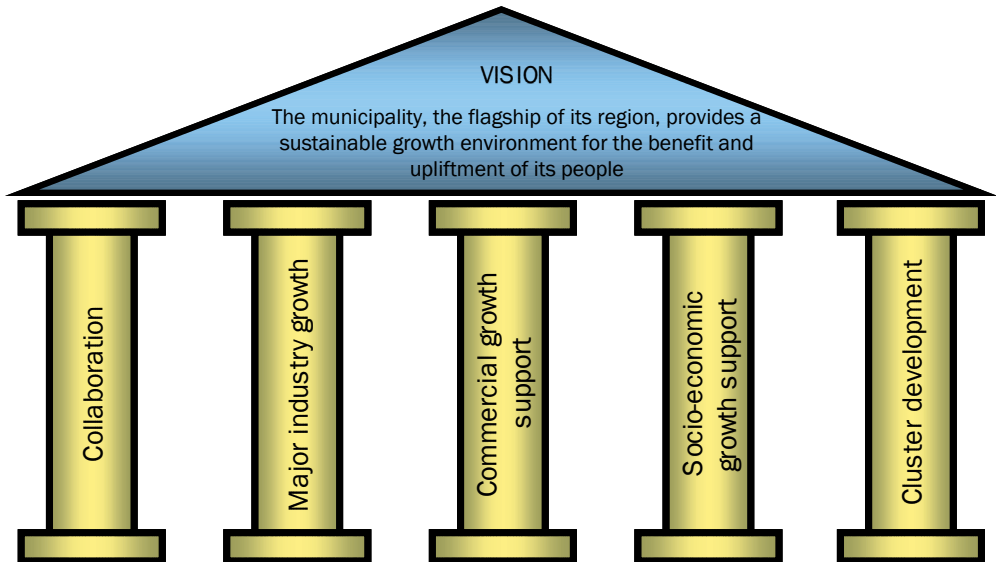
Figure 97: *Summary of strategic pillars*

3.7 Balanced scorecard for implementation

To track the implementation of the strategy we make use of balanced scorecard measures. The balanced scorecard illustrated here was developed for the strategic pillar "Socio-economic growth support" during the workshop and serves as an example. The scorecards should be finalised with input and buy-in from a more diverse (yet relevant) audience. The scorecards should then be cascaded down to strategic objectives and specific projects to ensure that the key elements are tracked to guarantee successful implementation of the strategy.

The strategic outcome for the strategic pillar was defined as the provision of all basic and appropriate services in a sustainable manner. Services include water, people, services, infrastructure and land. Sustainability implies cost effectiveness, affordability and equitable access.

SCORECARD FOR PILLAR: SOCIO-ECONOMIC GROWTH SUPPORT		
Key performance area		**Key performance indicator**
Performance (Financial & external)	• Appropriate services are provided cost-effectively to all the residents of the municipality	• % of households with access to basic services • % reduction in real cost per annum
Relationship (Customers & markets)	• All members of the community trust the municipality and participate in the system (Trust = Everybody understands the issue, transparency, collective responsibility, good communication, eradicate wrong perceptions)	• % decrease in non-payment • Degree of satisfaction with municipal performance
Activity (Internal business processes)	• Proactive skills development of local people (focus on growth plans)	• % sustainable jobs created • % decrease in unemployment • Ratio of local people employed • Number/value of funding sources accessed • % Improvement in overall skills level
	• Strong forums, representing all stakeholders, with effective information flow	• % developed terms of reference • Number of reports prepared and action plans implemented

SCORECARD FOR PILLAR: SOCIO-ECONOMIC GROWTH SUPPORT		
	Key performance area	**Key performance indicator**
Activity (continued)	• Service / infrastructure provision and management plans	• % of sectoral plans developed (water, transport, electricity, waste management, health, disaster, asset management, etc.)
	• Service development plans in place • Implementation of expanded public works programme	• Funding sourced for infrastructure and allocated appropriately • Plans implemented on schedule within budget
Future (Learning & growth)	• Resources must be utilised optimally and equitably	• % decrease in service backlogs • % decrease in network losses in water & electricity • % increase in agricultural production in relation to water used (effective water usage) • % increase in economically productive use of land
	• Plan proactively for, and provide, services for growth in collaboration with community, government and industry	• Increased participation of community organisation members in integrated planning forums • Improvement in prospects, living standards and conditions for community

3.8 Summary

Our municipality has incredible resources, but is poorly developed and far from major markets. Through the strategic process they developed a mental model of "sticking together" through development forums and public-private partnerships, enabling market growth for the big upstream businesses and the development of new downstream businesses. This will provide investment for upliftment, especially in the provision of basic services, but also for training, to allow the local population to participate in the new employment opportunities created by growth.

4. A PAPER PRODUCTS MANUFACTURER[19]

The paper products manufacturer's profits were decreasing due to the old technology in its plant and an inability to supply diverse market segments. The purpose of the strategic session was specifically to address the issue of technology and consider the replacement options that the company has for the old technology. The complete strategic process is still followed to ensure that no elements are overlooked.

4.1 Strategic issues facing the paper products manufacturer

The **key strategic issue** facing the paper products manufacturer in its **external environment** is articulated as the decision about the **position in the value chain** that the company wants to occupy. Opportunities for forward and backward integration exist.

The **key strategic issues** facing the paper products manufacturer in its **market environment** are the **changing market** and the **sizeable market gap** that exists. A business opportunity is presented by the existing excess supply of its main input commodity. Management, however, feel they don't understand future market segments and their positioning amidst changing customer requirements. Their competitive advantage is slipping.

The **key strategic issue** facing the paper products manufacturer in its **internal environment** is the decision about **production technology**.   The plant is currently operated on old technology, impacting on quality and economies of conversion. The control and price of their major input commodity is under question. Customers demand e-commerce solutions for procurement, tracking and product information.

4.2 Key success factors in the paper products industry

The **key external success factor** for a company in this industry is to **play the regulatory game**. Management should influence and leverage legislative issues.

The **key market success factor** is to have the **right products for the right customers**. Due to customers' production processes they require very specific products within a very small range of specifications. Access to accurate market intelligence is therefore critical to meet and understand customers' needs. This will enable the manufacturer to lock-in the market. In addition, a plant requires sufficient volume off-take and an effective supply chain to facilitate economies of scale.

The **key internal success factors** for a company operating in the paper products industry are a sustainable low-cost **raw material supply** and the **production technology** to produce the right product competitively. This implies attracting and utilising intellectual property relating to production.

The rating of the paper products manufacturer against its major competitor on these key success factors is depicted in Figure 98 below. The company needs to critically address its production technology and market positioning. These should impact on the other key success factors where the company received a low rating.

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[19] Composite case from two companies in two countries in Southern Africa, the one a strategic business unit of a major global player and the other a small independent producer.
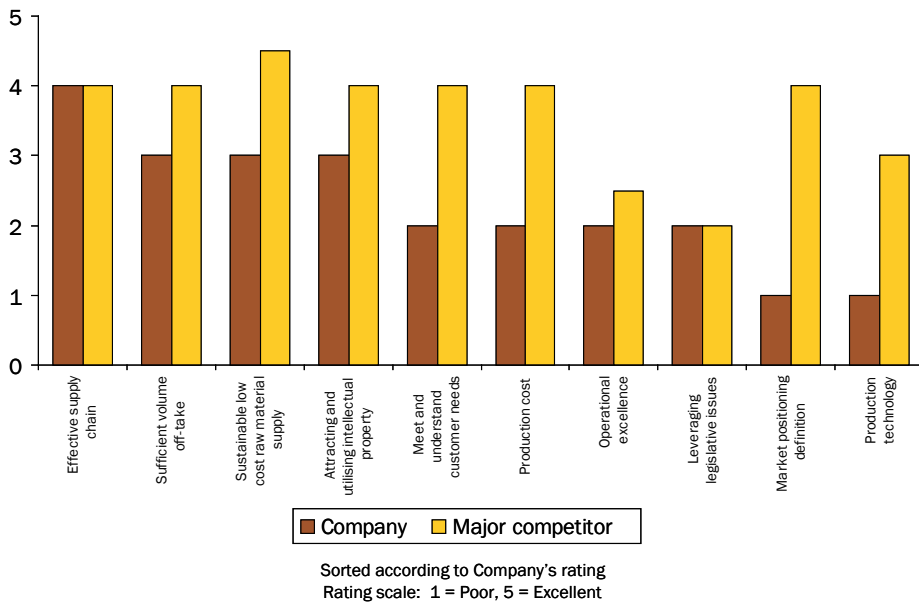
Figure 98: *Key success factor rating*

4.3 Opportunities and threats facing the paper products industry

In the **external environment** the **key opportunity** is to create **new value chain groupings** through forward integration. This could, however, be **threatened** by an **uncertain legislative environment** regarding ownership of the input commodity and environmental legislation.

In the **market environment** the **key opportunity** is the ability to **serve changing market requirements** better than its competitors can. This could result in longer-term contracts. Non-traditional market segments are also showing growth. This is, however, **threatened** by increasing **substitutes** for paper.

In the **internal environment** the **key opportunity** is to **deploy new technology**. This will result in the ability to serve more market segments and to lower costs. It could also assist the forward integration drive. This is, however, **threatened** by **pressure on production factors**. These include the existence of old capacity, rising labour costs and an increased demand for the raw material from other players.

4.4 Strengths and weaknesses facing the paper products manufacturer

In the **external environment** the company's **key strength** is an established **brand** for the broader product range. It has the ability to create jobs and its social responsibility initiatives are on track. The **weaknesses** are the current cost of environmental management and the strength of its **competitor's brand** in the final consumer market.

In the **market environment** the company's **key strength** is its established **key account management** capability. It dominates niche markets through adding value to present products. This is supported by a good sales and marketing department. This is, however, **weakened** by an **expensive product** compared to competitors'. The product is not clearly differentiated in the relevant market segments, and is not easily transferable to other market segments. The company could also do more to leverage its knowledge of its customers' conversion processes.

In the **internal environment** the **key strength** is the vast **industry experience** of its key personnel. It has access to technology and raw materials, and is situated close to its major markets. The current premises also has sufficient space to support expansion. The **key weakness** is, however, that the company is **set in its ways**. This is exacerbated by old technology, causing quality problems. The employee turnover is also too low, resulting in lack of new ideas and skills entering the business.

4.5 Strategic alternatives identified for the paper products manufacturer

The strategic discussion above enabled the group to identify the following strategic alternatives for the company:

External environment	• Create a downstream joint venture • Sell the business as a going concern
Market environment	• Product beneficiation • Downstream integration
Internal environment	• Consolidate own raw material • Purchase raw material suppliers • Obtain medium-sized new production machinery (scrap old technology) • Obtain super-sized new production machinery (scrap old technology) • Dual approach: Optimise old machinery and obtain medium-sized new production machinery

To facilitate the ranking of the alternatives, scenarios for the future were developed (depicted in Figure 99). These scenarios are used to test the robustness of the various strategic alternatives.
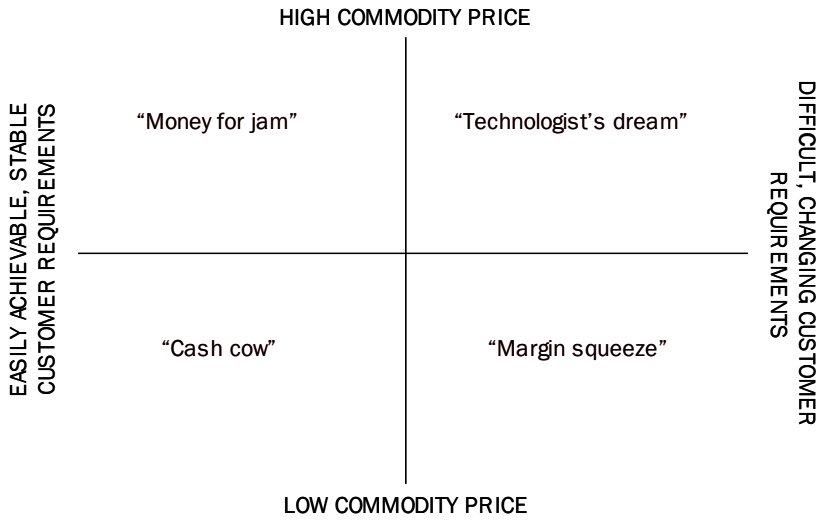
Figure 99: *Scenarios to test the robustness of the strategic alternatives*

The various strategic alternatives were then filtered, using Andersen's filtering tool, for robustness (will the option make sense given a range of future scenario options), attractiveness (will the option make money), aspiration (does the option fit leadership ideals) and pragmatism (does the company have the wherewithal to actually execute the option). (To calculate the average rating, the average for robustness is first calculated and then the average for the four filters).

	Robustness of option in a defined scenario				Attracti-veness	Pragma-tism	Aspira-tion	Ave-rage
	Money for jam	Technolo-gist's dream	Cash cow	Margin squeeze				
Consolidate raw material	5	4	5	4	5	5	5	4.8
Product beneficiation	5	5	4	4	4	5	5	4.6
Downstream integration	5	5	4	4	4	4	4	4.1
Medium new	4	5	3	3	4	4	4	3.9
Super new	5	5	4	4	3	3	3	3.3
Downstream JV	1	4	4	3	4	3	2	3.2
Sell	1	5	3	5	3	4	1	2.8
Dual approach	3	2	2	1	2	4	2	2.5

Figure 100: *Filtering of options*

The following options were rated the most attractive and, following this exercise, a pre-feasibility study must be conducted for each option:

- Consolidate raw material;
- Product beneficiation;
- Downstream integration;
- Medium-sized new machine; and
- Super-sized new machine.

Viable options must be depicted on a strategic map to facilitate lobbying, communication and alignment prior to Board presentation. Once a decision has been made by the Board, a detailed business plan must be developed to implement the chosen option.

4.6 Summary

Our paper products manufacturer has reached a critical stage in its development, where old technology will not be viable in the near future and will have to be replaced. The strategic framework was used to develop alternatives and then a filtering tool was applied to establish the most viable alternatives for further analysis. Through this process the company realised that the consolidation of their raw material supply (probably in an upstream joint business venture), new product development and some downstream beneficiation would be the most important strategic themes to consider and would be the most important drivers when considering investment in new equipment.

CHAPTER 17

ADDITIONAL CASE STUDIES

1. RADAR – THE FIRST DECADE

This story begins, paradoxically, on the same day in 1935 that Adolf Hitler and Herman Goering secretly laid plans to establish the Luftwaffe and started a programme that would enable them to take any country and all countries in Europe – from the air. On that same day in the English countryside Watts and Watson tested their theory that radar could pick up objects over a distance in the air.

Watts and Watson originally tried to develop "death rays", a ray that was believed to have an ability to kill armies over large distances. The British believed that the Germans were working on such an invention and a prize of a 1000 pounds was offered to anybody that could kill a sheep over a distance of 100 feet with a ray. This proved impossible, but during their research Watts and Watson stumbled on radar.

Their invention was quickly acknowledged for its worth and by 1938 the whole of the British eastern and southern seaboard was dotted with radar aerials, completely covering the coastline. Great secrecy surrounded the technology.

The Germans launched an intelligence surveillance operation in 1938 and flew up and down the English coast with a Zeppelin, believing that the masts must be some form of surveillance equipment. Unfortunately, in what was probably the costliest mistake the Germans ever made, their tracking radio was tuned to the wrong frequency and all they could hear and comprehend was gibberish. They finally gave up the tracking operation.

During the battle of Britain German planes outnumbered British by 5 to 1. The British relied heavily on the radar to make their force appear bigger, i.e. always appearing where the enemy was striking, something that baffled the Germans right through the battle of Britain. Goering was advised of the possibility of radar technology, but reportedly said that battles were won by "bombers not aerials". Goering was finally persuaded to attack the aerials and one single attack was launched, only partially damaging one aerial. Unbelievably no further attacks on radar installations, which were quite vulnerable, were launched. The Germans preferred civilian targets to attacking the radar masts, which were in open country and seemed unimportant.

The British remarked after these events: "For a while it felt as if Britain is not an island anymore – with the invention of radar we became an island again" (popular parlance).

Churchill was eager to share his invention with the Americans, against the advice of some of his generals and did so immediately after the Battle of Britain. Churchill knew that the Americans would have the scientific depth and resources to take the invention further, which they did.

Amazingly, on the morning of 7 December 1941 the incoming bombers of the Japanese attack force were spotted on radar, but the American watch officer thought it was a friendly bomber squadron that he believed was expected. He didn't bother to check this information. As a result the American fleet (excluding submarines and aircraft carriers) were destroyed.

The Americans hastily invested heavily in radar, and by the end of the war one million sets were in use. Radar progressed from being a defensive mechanism to an offensive weapons system in the hands of the Americans, giving them air superiority in submarine and carrier operations. The atomic bombs of 1945 were fitted with a range of offensive radar systems on each bomb that allowed the bombs to explode at exactly the right altitude to cause maximum damage.

By the end of the war the Americans said, "The atomic bomb ended the war, but radar won it" (popular parlance).

Questions

1. What was the English strategic objective?
2. What was the English tactical objective?
3. What was the English operational objective?

2. THE SPANISH ARMADA

In 1558 Spain was at the height of her growth and recognised as the most powerful country in the world. The Philippines were conquered in 1556 (named after Phillip II, the king of Spain at the time) and Phillip was poised to fulfil his goal of bringing Catholicism to every corner of the globe. This overriding ambition caused him to marry Mary Tudor (beyond child-bearing age and regarded by many as an unsuitable bride) in order to protect the faith in England and keep close watch on the Dutch, who were constantly striving to free themselves from Spanish rule. He started the modernisation of the English fleet and the first new ship was named by Queen Mary – The Phillip and Mary.

When Mary died and was succeeded by her sister Elizabeth, a Protestant, Phillip's fortunes in terms of England changed. He proposed to her, reluctantly – in order to save Catholicism and the alliance, but Elizabeth rejected him. Phillip and Elizabeth lived in reasonable harmony for a decade, but her two "semi-pirate" sea captains, Hawkins and Drake, raised the stakes by plying a slave trade route between Africa and the Caribbean, where Phillip's fleet eventually attacked them. In the rising tension that followed, Pope Pius excommunicated Elizabeth and an invasion plot was hatched by the Vatican and Spain. Elizabeth promptly learnt about the plot, began to actively support the Dutch in their fight against Spain and turned her "semi-pirates" loose to plunder Spanish shipping and ports in the Caribbean. When Phillip's fleet hunted Drake down he escaped by circumnavigating the globe and lay the foundation for the emerging empire's global expansion. When Drake finally got back to England he started to attack and plunder Spanish ports.

Phillip finally had no option, according to him, but to attack England. His advisers provided him with two strategies:

- Sail to England with a massive fleet and conquer it; and
- Dispatch the army in Flanders (led by the Duke of Parma) to conquer England.

Phillip, unadvisedly, joins the two plans together and decides that a massive fleet will sail up the channel, pick up the army in Flanders and attack England. When asked what he will do if bad weather strikes, he reportedly said: "God will provide good weather." (popular parlance).

Once again the plan leaked out immediately, but Elizabeth merely accelerated her ship renewal programme, started by Phillip. She arranged for the further design and building of

attack ships, faster and more deadly than troop carriers (which Phillip would have to use in an invasion.) In 1587 Elizabeth felt she was not quite ready yet, so she ordered a proactive strike, which Drake carried out in Cadiz, causing enough damage to set the Spanish plans back a year.

The leader of the Spanish Armada (as the attacking fleet became known) died that year and Phillip's money was running out. He finally appointed the Duke of Medina Sidonia and instructed him to attack forthwith. The Duke tried to get out of the assignment, because, incredibly, he was not informed of any of the developments up to then, he had no personal funds to sustain the venture and he was not a skilled mariner. Phillip's aides override Medina's concerns and he is forced to lead the venture.

Being a good organiser, the Duke got going in six weeks with 19 000 soldiers, 7 000 sailors, 1 000 adventurers, 130 ships and 180 clerics. Unfortunately, in order to get going quickly, quality was surrendered for the sake of quantity. The ships included many converted merchant ships of different types, many different canons with different ammunition sizes and calibres.

Facing them were 80 ships of Elizabeth's navy, under the charge of the Lord Admiral, Howard of Effingham, assisted by notable subordinates such as Francis Drake and Martin Frobisher.

Phillip entrusted the Armada with a holy charge – which included no blasphemy, no sodomy and no women aboard. When a storm hit them soon after sailing, Medina questioned Phillip about whether "God was really with us", which made Phillip angry.

When Medina Sidonia arrived close to Plymouth, Drake wasn't completely ready and out to sea yet (although folklore suggests he was playing bowls and reportedly claimed he had enough time to finish the game and take the Armada.). The wind was on the Armada's side and Medina's advisors urged him to attack and destroy Drake in Plymouth harbour. This was, however, contrary to the original plan to pick up Parma's army, and Medina Sidonia refused and kept on sailing. During the night Drake organised row boats to haul his fleet around the Armada and suddenly he was in the right position, upwind (in the weather gauge).

The Spanish promptly formed an impressive battle formation, but the English refused to take them on directly. Instead they picked off the ships one by one, on the fringes, in hit-and-run episodes with their faster ships and more effective canon. They also captured a ship early on in the battle and gleaned all the information that they could from the captain.

In the meantime communication between Medina and Parma became difficult, in fact non-existent, which caused Medina to sail to Calais to wait for clarification. Historians believe that he could have attacked England, with success, at this stage, but once again Medina tried to stick to the original plan. Whilst in Calais harbour the English got upwind again, attacked with fire ships (8 burning ships that were cut loose and floated towards the Spanish fleet) during the night and so scatter the Armada into the North sea. When Medina tried to regroup, his fleet refused, even after he hanged one of the captains. His remaining *five* ships in Calais faced the English bravely, but ultimately they were lost in the fierce battle.

The remaining ships try to make it around Scotland to Spain, and eventually only eight make it back. Historians have for many years speculated about the Armada's failures. The discovery of wreck sites in the last four decades showed that the ships were often supplied with different canon sizes, even on the same ship, used a confusing array of different canon-ball sizes and often had the wrong size of canon ball on board. They were also often outfitted with unwieldy land carriages for the canon, which made the canon difficult to reload.

Questions

1. Why did the Armada fail?
2. What was Phillip's strategic objective?
3. What strategic mistakes were made?
4. What was the tactical objective?
5. What tactical mistakes were made?

3. THE RACE FOR THE SOUTH POLE

(Source: Flynn, 2004)

3.1 Different agendas

In 1911 Captain Robert Falcon Scott and Captain Roald Amundsen set off from their respective base camps on the Antarctic coast, each trying to reach the South Pole first. Amundsen reached it on 15 December 1911 (the date is sometimes given as 14 December - the difference being due to differing interpretations of the international date line) and returned to civilisation within three months. Scott and his four men arrived at the Pole 33 days later, on 17 January 1912, and faced an agonising struggle to get back to base camp. They all perished. Exactly why Amundsen's team completed the return journey with comparative ease and Scott's party died has been the source of fierce debate ever since.

Despite Scott and Amundsen's shared aim to reach the Pole first, they differed in how they organised their expeditions. From the type of men they chose to the food and equipment they took, the differences were marked. In the extreme and hostile conditions of the Antarctic, getting the smallest details right or wrong could mean the difference between life and death.

To begin with, Scott's agenda was more diverse. He planned to continue his vast programme of scientific work, following on from the tasks undertaken on his Discovery expedition (1901-1904), as well as wanting to reach the Pole. Amundsen, on the other hand, did not even take any scientists and had relatively limited interest in major scientific achievement. His childhood desire was to be the first man at the North Pole, but when it was claimed in 1909, he was determined to be the first at the South Pole instead. He wrote in his journal: "...my plans made the Pole the first objective."

This competitive focus enabled Amundsen to spend all his energy and funds on the journey south.

Scott and Amundsen represented two very different nations and this inevitably influenced how their expeditions were organised, as well as their expectations of achievement. Scott was appointed to lead two official British expeditions to the Antarctic and always planned his voyages in the gaze of an inquisitive media. Due to Britain's world standing, it was naturally assumed that an Englishman would reach the Pole first.

In contrast, Norway was a relatively new nation in Amundsen's day, having only achieved its independence from Sweden in 1905. Amundsen was taking a massive gamble in his quest to reach the Pole first. One of the reasons why he planned his Antarctic expedition secretly was because Norway needed diplomatic support from Britain. He saw the political sensitivity in pitching himself against the English explorer and feared people would try to stop him if he made his plans public. Pride and an independent nature also contributed to Amundsen's pretence, while he was continuing with his plans to journey to the Arctic.

3.2 Camp conflicts

Scott's Terra Nova expedition was large compared to Amundsen's hand-picked party. Over 60 men manned the British ship and 25 men comprised the shore party, who would winter at base camp. Amundsen picked 19 men for his Fram expedition but only nine wintered at Framheim (meaning 'home of the Fram'), the hut they built on the ice shelf. Scott had yet to pick his Polar team from the shore party and, in fact, did not settle the matter until he was about 240 km (150 miles) from the Pole.

Amundsen planned for eight of the men to go to the Pole, with the Swedish cook, Adolf Lindstrøm, remaining at Framheim. The only man he feared in his party was Hjalmar Johansen, a famous Arctic explorer in his own right. When Amundsen set off too early in September 1911, the party was forced to return to the hut, and Johansen was appalled at the disarray and publicly chastised Amundsen. He was dropped with two others from the polar party - Amundsen would not tolerate people who criticised his leadership. In contrast, Scott included Captain Oates in his Polar party (as a representative of the army), despite the fact that the two men clashed. In letters home to his mother, Oates was candid in his criticism of Scott and this conflict was yet another strain on Scott's leadership.

Regarding the equipment they planned to use, Amundsen's men were used to cold climates. As a nation Norway pioneered skiing and Amundsen deliberately included a skiing champion, Olav Bjaaland, in his party. The British party was not so skilled at skiing and had little experience of how to adapt skis to different kinds of terrain. In the final push to the Pole, one of Scott's men, Birdie Bowers, even left his skis behind at one of the depots, forcing him to stumble through the snow.

Meanwhile, Amundsen and his men had spent time working out what type of skis and bindings to use for the variety of terrain and snow they would face. The Norwegians also spent time at base camp re-building their boots to prevent crippling blisters. Unlike the British party, the Norwegians took wolf-skin fur suits, adapted from Inuit clothing, in addition to the windproof Burberry suits they wore, made of a lighter gabardine material. Amundsen had also learnt from the Inuit that in order to reduce sweating, clothing must be worn loosely.

3.3 The devil's in the detail

One of the small details that later appeared to have contributed to the demise of Scott's team was the use of leather washers for his expedition's fuel cans. On his return from the Pole, having learned that Amundsen had got there before him, Scott noted in his diary that when his men opened the cans some of the fuel had apparently evaporated. This was caused by the deterioration of the washers used to seal the cans in the extreme temperatures, allowing the fuel to 'creep'.

Amundsen knew of this 'creeping' in low temperatures, and one of his team devised bungs that hermetically sealed the cans, to prevent any loss of the life-giving fuel. By the time, later in their voyage, that Scott, Wilson and Bowers were confined to their tent, they had run out of fuel, which was of course needed for turning ice into water for drinking. Dehydration is as much a problem in Antarctica as starvation.

In terms of transportation, Scott always planned to man-haul using harnesses attached to sledges. This was exhausting work, but he believed it was more noble and less cruel than using animals. Amundsen had experienced man-hauling sledges in the Arctic and did not want to repeat this experience. He took well-trained dogs, bought specially in Greenland, and two expert dog-handlers, Sverre Hassel and Helmer Hanssen. The dog teams set the pace for the journey to the Pole and every detail was seen to, from making sure traces were comfortable to feeding the dogs properly. Dogs that weakened or became disobedient were killed or set free.

The dogs were also part of the Norwegian's meal plan and at Butcher's Camp, about half way to the Pole, enough dogs were killed to feed the hungry men and the rest of the dogs. Amundsen and his men were sickened by such butchery, but they knew it was key to survival. The British party never ate their dogs but they did eat the ponies, burying some of the carcasses in the snow for their return journey.

3.4 Nutrition

Lack of good nutrition has been seen by some historians as being the main reason for the British party's eventual failure. Before setting off for the Pole, the British team probably already had nutritional deficiencies. Scurvy, caused by a lack of vitamin C, was an illness long known to sailors. This painful debilitating condition is always fatal if left untreated. Even though vitamins had not been identified in the 1910s, it was known that fresh food appeared to be the cure.

Amundsen and his men were eating fresh seal and penguin meat which, unknown to anyone at that time, contained enough vitamin C to prevent scurvy. The Norwegians, of course, had got this idea from indigenous peoples in the Arctic who ate an almost exclusively meat diet. The British palate preferred a less fishy taste and their penguin and seal meat was often overcooked, destroying the vitamin C.

Another difference between the two teams was the flour used for 'sledging' biscuits, a staple part of any explorer's diet. The British biscuits were made with white flour and sodium bicarbonate. The Norwegian biscuits were made with oatmeal and yeast, which provided the essential B vitamins needed to keep the nervous system healthy. Pemmican, a cake made by mixing pounded dried beef with beef fat, was also eaten every day. Although it was nutritious and compact, it was unappetising. On sledging journeys, pemmican was mixed with melted snow to make a hot stew or 'hoosh'. Scott's pemmican lacked the oatmeal and peas of Amundsen's recipe, depriving his men of essential roughage.

3.5 Leadership

Ultimately, the main difference between the Norwegian and British parties was leadership. Scott was a complex, sensitive and introspective man with considerable literary skills and charm. His concept of leadership was honed by his training as an English naval officer, which was inevitably hierarchical and formal. However, had his training been less conventional, he would not have been chosen by Sir Clements Markham (President of the Royal Geographical Society) nor the 'official' committee men who appointed him.

Conversely, Amundsen was more of an innovative individualist - a professional explorer with a genuine passion for snow and ice. He was also complex, particularly in his tangled relationships, but his competitive focus and drive were unparalleled. They never met, despite Scott's attempt to make contact with Amundsen when he visited Christiania (modern-day Oslo) in 1910.

Scott's death, in the context of the mass-scale slaughter of World War One soon afterwards, put him beyond immediate criticism. Questioning his status as a 'hero' came later. By contrast, despite winning the race to the Pole, Amundsen had to live, embittered and insolvent, with anti-climax for the rest of his life - his victory at the South Pole very much eclipsed by the British tragedy.

Questions

1. Why did Scott fail?
2. What was Scott's strategic objective?
3. What was Amundsen's strategic objective?
4. How do Scott's and Amundsen's leadership styles differ?
5. What were the differences in culture?
6. What were the differences in recruitment approaches between the two?
7. What were the differences in emotional and process readiness?

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How do
we incorporate
strategy in everything
that we do? Can we make our
lives and businesses more meaningful
with a practical strategic approach?

The authors of this book believe that it is not only possible,
but that it can be a powerful tool to enrich our lives and provide
focus to our thoughts and relationships. They describe, with business
case studies enriched by examples from other walks of life, a simple process
to guide our strategic thinking. The basic process is not new, but the practical
application is both thought-provoking and powerful – to be used in business,
in society and to empower individuals to think differently about everyday
problems.

They challenge consultants, business schools and strategy
practitioners to become more practical in their
approach to strategy. This will demystify
strategic thinking, not only to enrich
the lives of ordinary people,
but also the discipline
in general.